Annual Report 2018

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

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

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Director

Mr. DAI Jianchun

Independent Non-Executive Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

Ms. MUI Ngar May, Joel

AUTHORISED REPRESENTATIVES

Mr. ZHU Wenjun
Ms. MUI Ngar May, Joel

PRINCIPAL LEGAL ADVISORS

P.R.C. & Hong Kong

Zhong Lun Law Firm

Cayman Islands

Conyers Dill & Pearman, Cayman

AUDITORS

KPMG

REGISTERED OFFICE

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

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS

Hong Kong

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

PRC (Copper Business)

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

PRC (Online Game Business)

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Agricultural Bank of China
China Construction Bank
Bank of China

COMPANY WEBSITE

www.huanyue.com.hk

STOCK CODE

505

CHAIRMAN'S STATEMENT

On behalf of the board of Directors, I am pleased to present the annual report of Huan Yue Interactive Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018.

In 2018, the Group's copper processing business took full use of the policy opportunities for real economic development in Mainland China and constantly augmented its research and development efforts to strengthen its high-precision copper plates and strips business, resulting in a stable rise in the proportion of high-value-added products. Meanwhile, the Group also actively engaged itself in 5G mobile communication, new energy automotive and other new application areas of copper plates and strips, expecting to create new space of growth for the Group's copper processing business. China's online gaming industry regulator suspended the issuance of the monetisation approvals for new games ("**banhao**"), which undermined the Company's gaming business performance and led to less-than-expected performance.

The global economy was able to maintain growth in 2018 and the global trade limped ahead amid conflicts, shocks and contests among great powers. The global value chain was subject to new adjustments for development, and enterprises were seeking space for growth in a volatile and risky market environment. Chinese government continues to promote supply-side structure reform and economic transformation and upgrading, rolling out a number of policies which have effectively improved its ability to resist economic crises and consolidated the foundation for high-quality economic development. During the reporting period, the prices of non-ferrous metals fluctuated downward overall and it is expected that the industry may continue the tight equilibrium landscape and the range of copper price movements may go up.

In 2018, the domestic copper processing industry remained in an adjustment and transformation period. During the reporting period, the Group managed to hit a new high in its high-precision copper plates and strips production and sales contributed by the joint efforts of all employees involved in the copper processing business of the Group, with the annual copper production and sales reaching 134,000 tonnes, topping the high-precision copper plates and strips industry nationwide.

The year 2018 marks a challenging year for the Group's gaming business. China's online gaming industry regulator suspended issuing new game banhao since March 2018, the impact extending to the whole industry. The uncertain business environment dragged down the projected growth of online gaming revenue to below the expected level. This also led to the slow revenue growth of the existing game products of the Group's gaming business, and the development of several new game products fell behind schedule.

I would like to announce here that, in 2018, the profit attributable to shareholders of the Company stands at RMB27.5 million, with the annual revenue recording RMB4,996.1 million.

OUTLOOK

In 2019, China's economy is expected to continue with the proactive fiscal policies and stable and neutral monetary policies, and implement the "stabilizing employment, finance, foreign trade, foreign investment, investment, and expectations" policy to maintain sustained and healthy economic development. In 2019, the Group's copper processing business will stay innovation-and high-quality-oriented, with restructuring its product mix and stable quality as the base, while striving to achieve management innovation as well as efficiency enhancement and cost reduction. The Group plans to center around "home" cultures to conduct businesses under the guidance of the "exploring and innovating, stabilizing quality and reducing cost, and improving development" philosophy. While enhancing its traditional advantages in web games, the gaming business will actively switch to mobile web games (H5 games), mobile games and other internet game platforms to diversify sources of revenue. It is my firm belief that, under the leadership of the Company's Board of Directors, and with all employees motivated and determined to overcome the difficulties, we can secure stable returns to shareholders in 2019.

APPRECIATION

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

HU Changyuan
Chairman

Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL BUSINESS REVIEW

The Group's total revenue amounted to RMB4,996.1 million, representing a growth rate of 11.1% compared to RMB4,495.0 million in 2017. The Group's profit attributable to the shareholders decreased by 79.7%, from RMB135.5 million in 2017 to RMB27.5 million.

COPPER PROCESSING BUSINESS

Market and Industry Review

In 2018, the movement of copper price represented a downward trend. The copper price at London Metal Exchange ("**LME**") soared to USD7,348 per ton in early June, and then dropped sharply to below USD6,000 per ton. In 2018, most labor negotiations of overseas large-scale copper refineries ended smoothly, and the global copper and refinery output was not substantially affected. The supply and demand of global copper and refined ore were in a tight balance, and the shortage of supply is expected to expand in the next two years. In 2018, China's copper output had a steady rise, its import volume showed a double-digit growth. The growth rate of China's copper consumption was slightly lower than that of 2017. An increase in its excessive supply volume was also registered. It is expected that a small amount of excessive supply volume will remain in 2019, and the excessive supply of refined copper will be narrowed to a certain degree. China will continue to tighten its policies for the imports of copper scrap, and the imports of copper scrap will go through a further decrease. Apart from the slowdown on the demand side, the rising tension of the US-China trade war, the setbacks during the global macroeconomics recovery, and the strong USD associated with the rising interest-rate environment, are the main factors driving the copper price down.

The overall domestic copper plates and strips industry did well in 2018, the production volume growth of industry major enterprises was faster than the average level of copper processing industry. The utilisation rate of production capacity was higher than that of previous years, the market concentration level was further enhanced. The growth of exports was faster than the imports, and the net imports continued contracting. However, the exports volume was much smaller than the imports volume.

1. **The industry production operated well, the growth of production volume was faster than the production capacity.**

   According to Antaike, a copper industry consulting firm, the domestic production capacity of copper plates and strips processing industry is close to 4,626,000 tons in 2018, representing an increase of 5.19% as compared to that of the corresponding period of last year. The production volume reached 3,540,000 tons, representing an increase of 8.59% as compared to that of the corresponding period of last year. The utilisation rate of production capacity was approximately 75% in 2018, representing an increase of 2.35 percentage points from 72.65% in 2017.

2. **The production capacity continued to expand, the market concentration rate is becoming higher.**

   According to the research of Antaike, the domestic addition of production capacity will be approximately 963,000 tons in total from 2018 to 2020, the production capacity will be released gradually from 2018 to 2020, and the production capacity put into operation in 2018 is approximately 263,000 tons.

3. **The growth rate of exports was faster than the imports, but the exports volume was much smaller than the imports volume.**

   In 2018, the trading volume of copper plates and strips in PRC reached 176,900 tons, representing an increase of 4.67% as compared to that of the corresponding period of last year. In terms of imports, 133,800 tons of different types of copper plates and strips were imported in 2018, representing a small increase of 0.6% as compared to that of the corresponding period of last year. Imports amounted to USD1.298 billion, representing an increase of 12.67% as compared to that of the corresponding period of last year. The average price of imports reached USD9.70 per kg, representing an increase of 11.62% as compared to that of the corresponding period of last year.

   In terms of exports, 43,100 tons of different types of copper plates and strips were exported in 2018, representing an increase of 19.72% as compared to that of the corresponding period of last year. Exports amounted to USD359 million, representing an increase of 25.09% as compared to that of the corresponding period of last year. The average price of exports reached USD8.34 per kg, representing an increase of 4.64% as compared to that of the corresponding period of last year. The average price of exports was far below the average of price of imports, indicating that the quality level of products exported still needs to be enhanced. The net imports reached 90,700 tons in 2018, representing a decrease of 6,300 tons of last year. This shows a continuing contracting trend, indicating that with the improvement of production technical level, China's copper plates and strips industry is gradually realising imports substitution, and the reliance on imported copper plates and strips is declining. Meanwhile, among the total volume of copper processing materials, copper plates and strips accounted for 62.62%, which are the largest imported products in copper materials. This illustrates there is large market space and development potential in domestic high-end copper plates and strips products.

Business Review

During the reporting year, the Group's copper processing business realised a total revenue of RMB4,959.2 million and sales volume of 143,979 tons, representing an increase of 11.4% and 3.8% respectively over 2017. The revenue from manufacturing and sales of precision copper plates and strips was RMB4,448.1 million, representing an increase of 11.1% from RMB4,004.4 million of last year. The sales volume of precision copper plates and strips was 96,185 tons, representing an increase of 7.3% from 89,607 tons in the same period of last year. The increase in copper plates and strips revenue was mainly due to an increase in sales volume. During the reporting period, copper products processing services revenue reached RMB194.9 million, representing a decrease of 4.3% from RMB203.6 million of last year. The volume of processing services was 38,128 tons, representing a decrease of 5.7% from 40,442 tons of last year. During the reporting period, revenue from trading of raw materials was RMB316.2 million, representing an increase of 29.0% from RMB245.1 million of last year. While trade sales were 9,666 tons, representing an increase of 10.9% from 8,717 tons of last year.

Business Development

In 2018, in the spirit of our working guidelines "structure adjustment, efficiency improvement, cost reduction and development seeking", the Group initiated the seven-module framework, i.e. "market expansion, quality stabilisation, focus on research and development, strong governance, enhancing information technology structure, culture promotion, human talent nurture", in order to practically tackle the challenges during the transformation and upgrading.

The development strategy of the Group's copper processing business during the year was to enhance the proportion of high value-added products, so as to earn the high profit return for the Company, and build a solid foundation for the long-term development of the Company thereafter. Through the efforts of production and sales department, during the reporting year, the proportion of high value-added products of the Group exceeded expectations.

MANAGEMENT DISCUSSION AND ANALYSIS

Meanwhile, the Group actively explored other measures of cost reduction. Although there was the effect of limitation policies on imports of seven types of copper scraps, causing the overall intense supply of copper scraps and the rise of raw materials costs, the Group weathered the business toughness through actively developing new suppliers who are located closer to our factory to reduce transportation costs, and cooperating with our customers to retrieve copper scraps from them. We also strived to reduce the costs of spare parts and costs of supplementary materials. We enhanced the product yield and reduced rework rate and accelerated the turnover of materials through the continuous improvement of our production technics flow.

In addition, the Group implemented management improvements, reorganised corporate functions of several departments including sales, finance purchase and human resources. We also reviewed our workflows of many of our administrative functions to smooth the workflow and improve efficiency. During the reporting year, Ningbo Xingye Shengtai was accredited as "National Enterprise Technology Centre", which is a milestone for our efforts in the areas of technical research and development, and extended the Group's leading position in the domestic copper plates and strips industry.

Outlook

In 2019, the Group will march forward through innovation and pursuit of excellence. We will continue to adjust our product structure, improve our product quality, implement management innovation, improve our efficiency, reduce all kinds of costs, and encourage "family" culture. The Group will embrace the working guidelines of "expansion and innovation, quality stabilisation and cost reduction, improvement and development", and strive to bring stable returns for our shareholders.

ONLINE GAMES BUSINESS

Industry Review

According to *2018 China Game Industry Reports* ("**Report**"), China's game industry had a slowdown in growth rate. The overall operating revenue amounted to RMB214.4 billion, representing an increase of 5.3% as compared to that of last year. The growth rate of 2018 is lower than that of the previous years, and it is the first time for the rate to drop to below 10%. From segment perspective, the revenue from mobile games is RMB134.0 billion, accounting for 62.5% of the total market. The revenue from user-terminal games is RMB62.0 billion, accounting for 28.9%, and the revenue from web games is RMB12.6 billion, accounting for 5.9% of the total market. The market scales of user-terminal games and web games are shrinking, and the growth rate of mobile games has slowed down, but still keeps a growth rate of 15.4%, driving the overall growth of the gaming industry.

According to the Report, in 2018, the number of mobile game players reached approximately 605 million, representing an increase of 9.2% compared to that of last year; user-terminal game players amounted to approximately 150 million, representing a decrease of 5.0% compared to that of last year; web game players amounted to approximately 223 million, representing a decrease of 13.0% as compared to that of last year. The overall increase in game players is mainly contributed by the increase of mobile game players.

The authority supervising the online gaming industry stopped issuing monetisation license ("**banhao**") approvals for online games since March 2018, affecting the entire gaming industry fundamentally. Under such circumstances, the online gaming industry is becoming more divided. The big companies with ample product supply and cash not only survived the period without banhao, but also achieved revenue growth. Whereas, small to medium-sized companies have suffered losses. Looking forward, China's gaming market will still be dominated by big players, while small to medium players need to focus on quality and niche markets.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In August 2016, the Group completed the acquisition of Funnytime Limited ("**Funnytime**"), which mainly engages in the development, distribution and operation of online games through its wholly-owned subsidiary Soul Dargon Limited and a domestic company Hefei Zhangyue Network Technology Co., Ltd. (合肥掌悦網絡科技有限公司) ("**Zhangyue**") controlled through contractual agreements.

Funnytime achieved total revenue of RMB36.9 million and net profit of RMB3.1 million for the year ended 31 December 2018, representing a decrease of 11.9% and 85.6% respectively over 2017. The adjusted net profit (as defined in the sale and purchase agreement (the "**SPA**")) is RMB3.7 million for year 2018, representing a decrease of 83.8% over RMB22.9 million of year 2017. The significant drop in net profit is due to the following facts: (i) the launch of Funnytime's new gaming products was behind schedule, and the growth of web game operation is slower than previously forecasted; and (ii) Funnytime accrued allowances for doubtful receivables arising from technical services of RMB10.4 million.

According to the SPA, Funnytime shall achieve performance target of net profit (after adjustments for pre-agreed items as stipulated in the SPA) of RMB18,000,000, RMB22,000,000 and RMB30,000,000 for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 (collectively as "**the Performance Undertaking Period**"), respectively, and the total anticipated net profit shall be RMB70,000,000. Funnytime's adjusted net profit has fulfilled its performance targets for year 2016 and 2017, but did not achieve the performance target for year 2018. The total adjusted net profit for the Performance Undertaking Period is RMB45,780,262, which is less than the total anticipated net income of RMB70,000,000 by RMB24,219,738. In April 2017 and April 2018, 19,996,667 and 24,445,556 consideration shares were allotted and issued to Mobilefun Limited (the "**Vendor**") respectively. In August 2016, February 2017 and March 2017, the Company paid HKD95,922,191.61, HKD16,740,000.00 and HKD1,860,000.00, a total amount of HKD114,522,191.61 (excluding the transaction costs) to the Vendor as cash consideration.

According to the SPA, the Vendor is subject to consideration adjustments, whereby the Vendor has to repay the Company cash in the amount of HKD40,135,567, and the remaining number of consideration shares issuable to the Vendor should be adjusted to 6,424,734 shares. The details of the consideration adjustments mechanism can be referred to in the announcement of the Company dated 21 June 2016. As at the date of this annual report, the Company and the Vendor are still discussing the settlement plans for the consideration adjustments. The current guarantors of the Vendor under the SPA are Mr. Ren Hao and Mr. Yang Jiong. Mr. Tong Xin was relieved in July 2018 from acting as one of the guarantors after his disposal of all his interest in the Vendor to Mr. Ren Hao. The Board is of the view that such change of guarantor would not have any material adverse impact to the Group as Mr. Ren Hao and Mr. Yang Jiong would continue to remain as guarantors to the Vendor. The Company will issue further announcement(s) for any material development of the above as and where appropriate.

Funnytime was consolidated into the Group's financial statements from the Acquisition Date of 5 August 2016, with its net profit of RMB6.2 million from the Acquisition Date to 31 December 2016. Net profit of RMB21.5 million was consolidated in the Group's financial statements for the year ended 31 December 2017. Net profit of RMB3.1 million was consolidated in the Group's financial statements for the year ended 31 December 2018.

Due to the impact of the relevant regulatory policies, the release schedule of some games was affected, and the launch time was delayed, resulting in lower revenue growth rate of the game operation business than previously forecasted. As the business environment remains uncertain, the future revenue growth of the operation of online games will be lower than forecasted. Therefore, an impairment of goodwill in the amount of RMB109.9 million in relation to the acquisition of Funnytime is recorded for the year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Development

Operation Center

Although the entire gaming industry experienced a hard time due to the suspension of issuing banhao by the authority, Zhangyue, a subsidiary of the Group's online game business, was able to maintain a stable development, by leveraging its competitive advantage in the operations of traditional web game business, and tapping into the operations of mobile games.

Gross revenue from multiple web game products including the Art of War and Three Kingdoms（《兵法三國》）, The Rise of Taiji （《太極崛起》）, and Ambition of Three Kingdoms 2（《三國之志2》）was encouraging, with each product averaging a monthly gross revenue of around RMB2.5 million to RMB3 million. Apart from the traditional web games, Zhangyue launched King of Box Office（《票房大賣王》）, a casual mobile game on Android phones in October 2018. The game was an immediate success with the first month gross revenue of RMB3.6 million. The popularity of King of Box Office（《票房大賣王》）was a result of Zhangyue's continuous endeavor to diversify its game portfolio and cultivate the mobile game business over the past two years. Also in the second half of the year, Zhangyue extended its presence in the H5 game sector by launching Little Home（《小小家園》）, also known as Interesting Hospital (《萌趣醫院》) on WeChat Mini Game platform.

Research and Development Center

In 2018, Zhangyue adjusted its research and development ("**R&D**") strategy, switching from traditional web game R&D to H5 game and mobile game R&D. Self-developed mythical heroes-themed H5 games and a mythical heroes-themed mobile game were being developed throughout the year. Due to staff reorganization of the R&D center during the year, the progress of game development was behind schedule.

Outlook

As the game industry becomes increasingly competitive, Zhangyue is going through transformation to adapt to new industry trends as well. Zhangyue actively explores game business opportunities in H5 games and mobile games in order to provide breakthroughs in its business. Zhangyue is committed to constantly bring high quality games to the market, and focus on improving player experiences of existing games. Several anticipated games are in the pipeline, among which, a renowned Intellectual Product ("**IP**") game is being negotiated. Although, the Performance Undertaking Period ended as at 31 December 2018, the game business will still remain with the Group, and we expect the game business will still be a contributor for the Group's revenue and net profit.

FINANCIAL REVIEW

Revenue and gross profit

The Group's copper business achieved a total revenue of RMB4,959.2 million for the year ended 31 December 2018, and the Group's online game business achieved revenue of RMB36.9 million.

For the year ended 31 December 2018, the Group recorded total sales revenue of RMB4,996.1 million, which increased by 11.1% from RMB4,495.0 million of last year. The increase in the revenue of the Group's copper business was mainly due to an increase in sales volume of copper products.

The Group sold 143,979 tons of copper products, which increased by 3.8% from 138,766 tons of 2017.

The Group recorded a gross profit of RMB418.4 million in 2018, which decreased by 20.2% as compared with 2017. The decrease in gross profit is mainly due to the increase in raw material costs.

Other income

For the year ended 31 December 2018, the Group recorded other income of RMB39.5 million, which increased by RMB11.9 million as compared to 2017. The Group had gains from derivative financial instruments of RMB16.0 million in 2018 (2017: Nil).

Other expenses

For the year ended 31 December 2018, other expenses of the Group was RMB120.2 million, which increased by RMB39.9 million from RMB80.3 million in 2017. This was mainly because the Group had impairment losses on goodwill in 2018 related to the acquisition of 100% interest in Funnytime in August 2016 of RMB109.9 million. In 2017, the Group recognised impairment losses of property, plant and equipment of RMB38.8 million and loss on disposal of property, plant and equipment of RMB21.9 million.

Distribution expenses

For the year ended 31 December 2018, the distribution expenses of the Group decreased by RMB5.0 million from RMB52.1 million of 2017 to RMB47.1 million of 2018.

Administrative expenses

For the year ended 31 December 2018, administrative expenses of the Group increased by RMB35.0 million from RMB205.3 million of 2017 to RMB240.3 million of 2018, which was mainly due to an increase in R&D expenses.

Net finance income/(costs)

For the year ended 31 December 2018, the Group's net finance income was RMB1.1 million (2017: net finance costs of RMB36.2 million). The increase in finance income was mainly due to the gain on fair values change of contingent consideration receivables and contingent consideration payables.

Income tax

For the year ended 31 December 2018, the Group's income tax expenses decreased by RMB16.5 million to RMB22.7 million from RMB39.2 million of 2017, and the effective tax rate decreased to 20.2% (excluding impairment loss on goodwill and fair value change of contingent consideration) from 22.0% of last year, which was mainly because the Group's two major subsidiaries received tax refund in April and May 2018, because the two subsidiaries were entitled to income tax super deduction for qualified research and development expenses in 2017.

Profit attributable to the shareholders of the Company

As a result of the aforementioned factors, during the year, the profit attributable to the shareholders of the Company decreased by RMB108.0 million to RMB27.5 million from RMB135.5 million of 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 31 December 2018, the Group recorded net current assets of RMB171.7 million, compared with net current assets of RMB175.1 million as at 31 December 2017.

The short-term interest-bearing borrowings represented 94.1% of total interest-bearing borrowings as of 31 December 2018. As at the date of this annual report, the Group had not experienced any difficulty in raising funds by securing and rolling over the short-term loans borrowed from various banks in the PRC, which were renewed on an annual basis in accordance with local market practice.

The Group is able to generate cash from operating activities, has good credit standing and relationships with principal lending banks, and possesses available undrawn banking facilities together with bank deposits of RMB999.5 million (including long term loan facilities amounted to RMB60.4 million effective until 2020) and RMB326.3 million (comprised of restricted bank deposits of RMB140.1 million, bank deposits with maturity over three months of RMB10.2 million and cash and cash equivalents of RMB176.0 million) respectively. Based on previous experience and the Group's relationships with its principal lending banks, the Board believes that the Group can roll over existing short-term bank borrowings upon maturity in the coming year. The Board is confident that the Group has adequate financial resources to sustain its working capital requirements and meet its foreseeable debt repayment requirements.

As at 31 December 2018, the Group had outstanding bank loans and other borrowings of approximately RMB728.5 million which shall be repaid within 1 year. As at 31 December 2018, 79.3% of the Group's debts were on a secured basis.

The net gearing ratio as at 31 December 2018 was 36.2% (31 December 2017: 40.6%), which is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to equity shareholders of the Company, as shown in the consolidated statement of financial position, plus net debt.

Charge on assets

As at 31 December 2018, the Group pledged assets with an aggregate carrying value of RMB921.7 million (31 December 2017: RMB939.3 million) to secure bank loan facilities.

Capital expenditure

For the year ended 31 December 2018, the Group had invested RMB55.5 million in the purchase of property, plant and equipment. These capital expenditures were largely financed by internal resources and bank loans.

Capital commitments

As at 31 December 2018, future capital expenditures, for which the Group had contracted but not provided for, amounted to approximately RMB18.8 million.

CONTINGENT LIABILITIES

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

MARKET RISK

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

EMPLOYEES

As at 31 December 2018, the Group had 1,290 employees, of which the copper business and online gaming business had 1,228 and 62 employees respectively. Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment packages to our employees. Benefits of the employees include salaries, pension, medical insurance scheme and other applicable social insurance. In addition, share options or share awards may be granted or awarded to eligible employees of the Group (including directors) in accordance with the terms of the approved share option scheme or share award scheme respectively. Promotion and salary increments are assessed based on performance. The Group's success is dependent upon the skills and dedication of its employees. The Group recognises the importance of human resources in a competitive industry and has devoted resources to train employees. The Group has established an annual training program for our employees so that new employees can master the skills required to perform their roles and responsibilities and the existing employees can upgrade or improve their skills.

ENVIRONMENTAL AND REGULATORY POLICES

Environmental protection and energy conservation are the fundamental standards in our production and operations. The Group has made vigorous endeavors to foster the recycling of resources and has established dedicated recovery plants that recycle the relevant metals and other resources for remanufacturing purposes in order to minimise the impact on the environment.

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

On 8 August 2018, Ningbo Xingye Shengtai Group Limited ("**Ningbo Xingye**"), a subsidiary of the Group's copper processing business, received a penalty letter from Ningbo Municipal Bureau of Ecology and Environment (the "**Bureau**"). In the letter, the Bureau stated that during the inspection performed by the Bureau on 4 June 2018, it found that in the premise of Ningbo Xingye, two sets of acid mist waste gas treatment equipment were not operating normally. The Bureau requested Ningbo Xingye to correct the misconduct and fined Ningbo Xingye RMB130,000. Ningbo Xingye corrected the misconduct immediately and paid the fine. The penalty did not have a material impact on the operation of Ningbo Xingye's business.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018, except that the trustee of the share award scheme adopted by the Company on 18 April 2016 (the "**Share Award Scheme**"), pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 551,000 shares of the Company at a total consideration of HKD551,000 (equivalent to RMB401,000) during the year.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2018, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The current practices will be reviewed by the Board regularly to follow the latest practices of corporate governance.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiries with all Directors of the Company (the "**Directors**"), all the Directors confirmed that they had complied with the required standards set out in the Model Code during the year ended 31 December 2018.

BOARD

Board composition

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

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

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

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

CORPORATE GOVERNANCE REPORT

Responsibilities of the Board

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

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

The Company convenes at least four regular Board meetings a year and meets more frequently as and when required. During the year ended 31 December 2018, the Board convened a total of 4 Board meetings and the individual attendance record of the Directors is tabulated as follows:

Name of Director	Number of meetings held while being a Director	Number of meetings attended
Executive Directors		
Mr. HU Changyuan *(Chairman)*	4	4
Mr. HU Minglie *(Chief Executive Officer)*	4	4
Mr. CHEN Jianhua *(resigned on 13 December 2018)*	4	4
Mr. REN Hao	4	4
Mr. ZHU Wenjun	4	4
Non-executive Director		
Mr. DAI Jianchun	4	4
Independent Non-executive Directors		
Mr. CHAI Chaoming	4	3
Dr. LOU Dong	4	4
Ms. LU Hong	4	4

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

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

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

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

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

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

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

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

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

Corporate Governance Functions

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

- To develop, review and update the Company's policies and practices on corporate governance;
- To review and monitor the training and continuous professional development of directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

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

Directors' and officers' liability

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

Directors' training and continuing professional development

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

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

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

All Directors have participated in appropriate continuous professional development programmes and reading materials to develop and refresh their knowledge and skills and provided the Company their record of training they received for the year ended 31 December 2018.

DIRECTORS' APPOINTMENT, RE-ELECTION AND REMOVAL

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

Details of the selection process of new directors and a summary of work performed by the Nomination Committee in 2018 are set out under the "Nomination Committee" section below.

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

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

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

CORPORATE GOVERNANCE REPORT

DIVISION OF RESPONSIBILITIES

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

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

BOARD COMMITTEES

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

Audit Committee

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

Two Audit Committee meetings were held during the year ended 31 December 2018. At the meetings, the members of the Audit Committee executed the major duties and responsibilities which are provided below. The individual attendance record of each member of the Audit Committee is tabulated as follows:

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

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

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

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

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

- to review internal control matters with the external auditors;
- to review the external auditors' statutory audit plan and letters to the management;
- to advise the Board on appointment, re-appointment and removal of hired external auditors, approve remuneration and terms of engagement of external auditors and to handle any problems in relation to the resignation or dismissal of auditors; and
- to review continuing connected transactions and examine the adequacy of internal controls of the Group as part of the standard procedures.

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

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

In addition, the Audit Committee is authorized:

- to investigate into any matter within the ambit of its written terms of reference;
- to have full access to and co-operation by the management;
- to have full discretion to invite any Director or executive officer to attend its meetings; and
- to have reasonable resources to enable it to discharge its functions properly.

Remuneration Committee

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

Two Remuneration Committee meetings were held during the year ended 31 December 2018. At the meetings, the Remuneration Committee reviewed remuneration policy and packages of the Directors and senior management and information regarding the directors' remuneration in the interim report and the annual report and made recommendation to the Board for approval. The individual attendance record of each member of the Remuneration Committee is tabulated as follows:

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

The remuneration of members of the senior management (including all executive Directors) by band for the year ended 31 December, 2018 is set out below:

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

Nomination Committee

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

One Nomination Committee meeting was held during the year ended 31 December 2018. At the meeting, the members of the Nomination Committee executed the major duties and responsibilities which are provided below. The individual attendance record of each member of the Nomination Committee is tabulated as follows:

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

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

- regularly review the structure, size and composition of the Board and make recommendations to the Board with regard to any adjustments that are deemed necessary;
- review whether or not an independent non-executive Director is independent for the purpose of the Listing Rules on an annual basis;
- be responsible for identifying and nominating appropriate candidate(s) to fill Board vacancies as and when they arise;
- assess the effectiveness of the Board as a whole and the contribution by each individual Director to the effectiveness of the Board;
- to advise the Board on issues regarding appointment or re-appointment of Directors and succession of Directors; and
- to review the board diversity policy.

The Board has adopted a nomination policy ("**Nomination Policy**") setting out process and procedure for nomination of directors by the Nomination Committee. The objective of the Nomination Policy is to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. To ensure changes to the Board composition can be managed without undue disruption, a formal, considered and transparent procedure is in place for selection, appointment and re-appointment of Directors. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities.

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

BOARD DIVERSITY POLICY

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

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

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' acknowledgement

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

In preparing the financial statements for the year ended 31 December 2018, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The financial statements for the reporting year have been prepared on a going-concern basis.

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

Auditors' Remuneration

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

The fees in respect of audit services provided by KPMG for the year ended 31 December 2018 amounted to approximately RMB2.48 million.

Risk Management and Internal Control

The Board acknowledges its responsibility for maintaining sound and effective risk management and internal control systems of the Group and reviewing their effectiveness on an ongoing basis. The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee. Management has provided a confirmation to the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2018. The risk management and internal control systems are designed to manage, not eliminate, the risks of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The main framework of the Group's risk management and internal control systems at each level are summarized as follows:

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

Process Used to Identify, Evaluate and Manage Significant Risks

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

Risk Identification and Assessment

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

Risk Monitoring and Reporting

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

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

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

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

Dissemination of Inside Information

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

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

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

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

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

Whistle Blowing Policy

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

COMPANY SECRETARY

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

According to the Rule 3.29 of the Listing Rules, the Company Secretary has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2018.

SHAREHOLDERS AND INVESTOR RELATIONS

Communication with Shareholders and Investors

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

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

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

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

The individual attendance record of the Directors at the 2018 annual general meeting ("**AGM**") is tabulated below:

	AGM
Executive Directors	
Mr. HU Changyuan *(Chairman)*	1
Mr. HU Minglie *(Chief Executive Officer)*	1
Mr. CHEN Jianhua *(resigned on 13 December 2018)*	1
Mr. REN Hao	1
Mr. ZHU Wenjun	1
Non-executive Director	
Mr. DAI Jianchun	1
Independent Non-executive Directors	
Mr. CHAI Chaoming	1
Dr. LOU Dong	1
Ms. LU Hong	1

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

SHAREHOLDERS' RIGHTS

Procedure for Shareholders to put forward enquiries to the Board

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

Procedures for Shareholders to convene an extraordinary general meeting

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

Procedures for Shareholders to put forward proposals at general meetings

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

If a Shareholder wishes to propose a person (the "**Candidate**") for election as a director of the Company at a general meeting, he/she shall deposit a written notice at the Company's head office at Flat 11, 11th Floor, Hung Tai Industrial Building, 37-39 Hung To Road, Kwun Tong, Kowloon, Hong Kong or Hong Kong Branch Share Registrar and Transfer Office, Tricor Investor Services Limited, at 22/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong. The written notice must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules.

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

CONSTITUTIONAL DOCUMENTS

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT REPORT PREPARATION

Basis

The environmental, social and governance report (the "**report**") is prepared in accordance with the revised Environmental, Social and Governance Reporting Guide (Hong Kong Stock Exchange ESG Reporting Guide) published by Hong Kong Exchange and Clearing Limited in 2015, and by referring to Global Reporting Initiative (GRI) Sustainable Development Report Standards (GRI Standards).

Scope of Report

Scope of organization: The report covers Huan Yue Interactive Holdings Limited ("**Huan Yue Interactive**") and its subsidiaries Ningbo Xingye Shengtai Group Ltd. ("**the Company**" or **Shengtai Group**") and Shenzhen Zhangyue Network Technology Co., Ltd. ("**Zhangyue Technology**").

Scope of time: from 1 January 2018 to 31 December 2018. Part of the presentation and data are properly traced back to the previous years.

Publish Cycle

The report is published on an annual basis.

Description of Data

Unless otherwise specifically provided in this report, the data and cases in this report are the actual data on the operation of Huan Yue Interactive Holdings Limited.

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

Principle of Report

The report complies with the principle of report set forth in the Hong Kong Stock Exchange ESG Reporting Guide, including:

- **Principle of materiality**

  In accordance with this principle, the report identifies key topics for response through stakeholder surveys and materiality analysis and lays focus on reporting environmental, social and governance matters that may have significant impacts on investors and other stakeholders.

- **Principle of quantitative**

  In accordance with this principle, the report discloses key quantitative performance indicators and explains the meanings of indicators, describing the calculation bases and assumptions.

- Principle of balance

  In accordance with this principle, the report reflects objective facts faithfully and discloses indicators of both positive and negative information.

- Principle of consistency

  In accordance with this principle, the report explains the meanings of the ESG key quantitative performance indicators disclosed, describing the calculation bases and assumptions. The report also tries to maintain the best consistency among indicators used in different reporting periods to mirror the performance trend.

Publish of Report and Contact

The report is published in both English and Chinese and are available for download at the Huan Yue Interactive official website (http://www.huanyue.com.hk). Should you have any questions or suggestions for the report, you are welcome to call us at + 852 31693351, or email us at: ir@cn-shine.com.

2. MANAGEMENT OF SOCIAL RESPONSIBILITY

2.1 Concept of Social Responsibility

Concept of Social Responsibility

As a leading domestic manufacturer of high-precision copper plates and strips, the Company keeps in mind its vision of "building a professional and international first-class supplier of copper plates and strips", and fuses its operation philosophies of "employee-pleased, customer-impressed, shareholder-satisfied and society-recognized" into its strategic and daily operations to stay committed to leading sustainable development while creating value for the society and sharing prosperity and development results with stakeholders.

With regard to social responsibilities, the Company formulates uniform institutions and regulations at the group level to build a social responsibility management system. The Company adheres to the basic principles of good-faith operation and strict compliance with laws and regulations to actively undertake its responsibilities for the environment, employees, customers and community and give full respect to and safeguard legitimate rights and interests of stakeholders. Various business segments practice their own social responsibilities in accordance with applicable laws, regulations and policies and in line with their own business types.

Social Responsibility System

Establishment of ESG Working Group

The Company ingrains social responsibility concepts in its corporate cultures and daily operations and establishes an Environmental, Social and Governance (ESG) Working Group to put into practice specific responsibilities of various levels of personnel of the ESG Group for social responsibility management.

Structure of ESG Working Group

2.2 Materiality Assessment

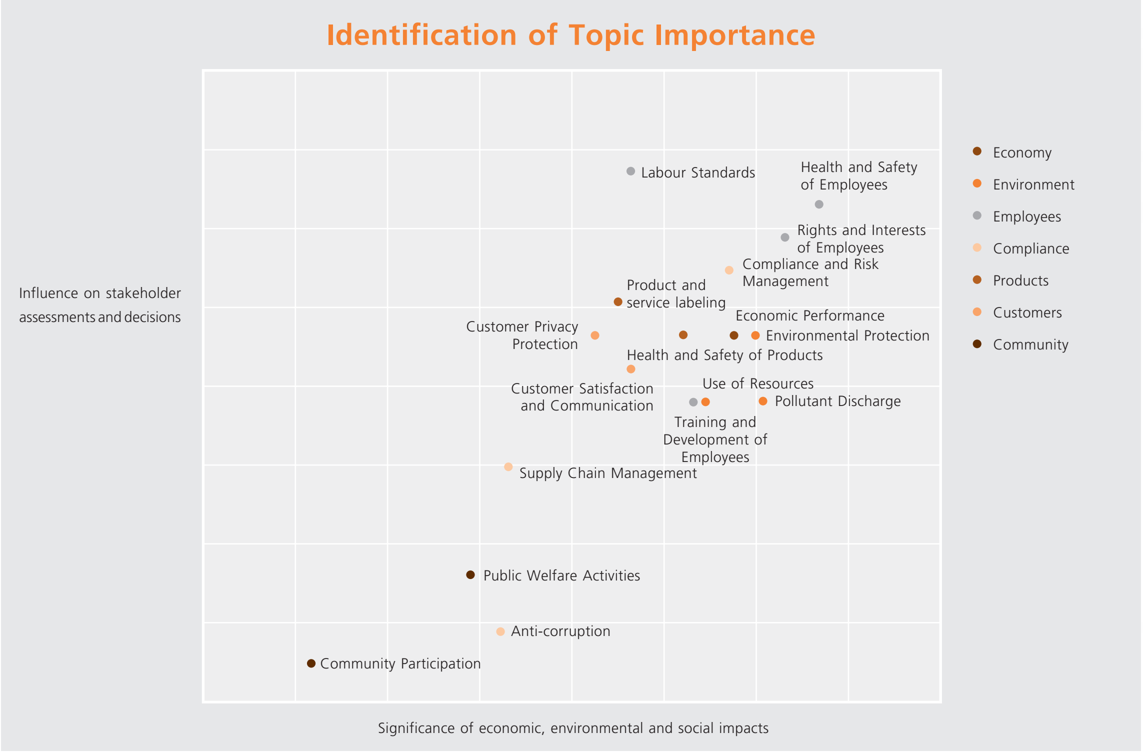
Communication with Stakeholders

The Company keeps improving its communication mechanisms with internal and external stakeholders and fully respects and timely responds to reasonable appeals of stakeholders while enhancing cooperation with stakeholders. The Company gains insights into appeals, opinions and suggestions of different parties through active communications with stakeholders, and includes their topics of concerns into the Company's operation and decision-making processes to improve the Company's operational management capabilities and competitiveness for sustainable development.

Analysis of Topic Importance

The Company collects important topics of concerns for major stakeholders in questionnaires, interviews and other forms following the identification, evaluation and screening procedures, and analyzes the topic importance and sort topics by importance, so as to assess the importance with stakeholders' appeals taken into full consideration and focuses highlighted.

During the reporting period, the Company identified important topics in environmental, social and governance aspects based on feedback from stakeholders and expert opinions and disclosed the information in the report.



3. COMPLIANCE AND RISK MANAGEMENT

The Company strictly complies with national laws and regulations, carries out all production and operation activities legally, and guarantees behavioral compliance of its management and employees at various operation levels to ensure safe, stable, healthy and sustainable development of the Company.

Number of corruption lawsuits brought against the Company and its employees 0
Number of reports of corruption from employees 0

Note: The statistical coverage of above data is confined to the copper business segment.

3.1 Risk Identification and Control

The Company highly values risk identification and control and actively launches related work to accurately identify and strictly control various potential risks that may have an impact on the Company to guarantee strategic development of the Company and improve its value for shareholders. The Company formulates its Internal Audit System to ensure that the financial risks, operational risks and other risks that the Company is exposed to remain within a controllable range.

The Company formulates annual audit work plans on a yearly basis. The annual work plans are reviewed and approved by the highest management. The Company carries out internal audit on a regular basis. In addition, the Company organizes training for employees to identify and assess risks to better improve employees' risk awareness and further improve the Company's ability in risk management and control.

Internal Audit Procedures of the Company

Audit Planning

- Developing annual audit work plans which are reviewed and approved by the highest management before becoming effective for execution

Audit Preparation

- Launching pre-audit interviews
- Launching business analysis and assessment to identify key points and targets of audit

Auditing

- Collecting audit evidence
- Communicating on issues discovered during auditing

Audit Report

- Developing and presenting audit reports
- Convening external sessions to communicate on audit results

Rectification Follow-up

- Presenting audit notifications for rectification
- Following up on rectification of problems discovered during auditing

The Company launches risk analysis, identification and assessment training

To improve across-the-board risk awareness in the Company and help employees to better identify and assess risks, the Company organized risk identification and assessment training for a total of 20 persons in charge from various business departments. The training covers definitions, classification, risks and opportunity identification and control procedures, risk countermeasures and other content for risk and risk management to enable employees to gain more comprehensive understanding in risk identification and assessment.

3.2 Compliance Management

The Company integrates "law-abiding and compliance" into various levels of its operational management and strictly observes the Criminal Law of the People's Republic of China, the Law Against Unfair Competition of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery and other laws and regulations to launch compliance management. The Company formulates the Anti-Corruption System, the Gift Management System, the Sunshine Procurement System and other system documents to enforce pre-event prevention and post-event supervision with strict standards. The Company specifies its compliance management requirements for employees in its Code of Professional Ethics for Employees and launches anti-corruption training for all employees in a bid to eliminate corruption, fraudulent practices, bribery and other illegal and undisciplined behaviors. During the reporting period, there was no act in violation of any laws or regulations, or any corruption lawsuit.

4 RESPONSIBILITY FOR PRODUCTS AND CUSTOMERS

The Company focuses on copper plates and strips manufacturing and lays stress on its product and customer service responsibilities while offering high-quality and reliable products and enhancing technical innovation to safeguard customers' rights and interests.

Percentage of products that had to recalled for safety and health reasons in the total products that have been sold or shipped: Nil
Number of customer complaints received due to product quality or service: 1041 complaints
Complaint handling rate: 100%

Note: The statistical coverage of above data is confined to the copper business segment.

4.1 Responsibility for Products

Product Quality Control

In compliance with requirements in laws and regulations such as the Law of the People's Republic of China on Product Quality, the Company attaches importance to ensuring product quality and formulates quality management systems including the Product Supervision and Measurement Control Procedures, and Inspection Procedures for Finished Products. In 2018, the Company passed the ISO9001 certification and the IATF16949 certification for automotive products, and formulated its quality management procedures in accordance with the certification system requirements and system specifications as an effort to strictly implement quality control throughout the process from launch of raw materials, production process to ex-factory process of finished products.

For the purpose of product quality control, the Company's Quality Center formulates annual quality improvement plans in accordance with the actual production techniques, clarifies quality improvement measures and assigns specific persons accountable. The Company sends products to a third-party organization for toxic and hazardous substance tests such as cadmium, lead and mercury twice a year to ensure healthy and safe products. The test results all comply with the restrictions and requirements as stipulated in the EU RoHS Directive[1], namely the 2011/65/EU Appendix 2 Revision Directive (EU) 2015/863.

Note:

1. RoHS Directive: Restriction of Hazardous Substances.

Quality Management Procedures

The Company launches quality training on "8D report and 5 Why's analysis method"

The Company's Marketing Center, Customer Service Department and Human Resources Center jointly held a special training session themed "8D report and 5 Why's analysis method" to improve internal understanding, analyzing and solving capabilities with regard to quality issues. The training covers more than 20 personnel from multiple departments such as production, quality, technology, customer service and system.

The training enables participants to master analysis and improvement tools and skills, which is conducive to gradually improving product quality and customer satisfaction.

Supply Chain Management

The Company values supply chain as an important link to ensure product quality and an important partner, observes "impartial, transparent and good-faith" sunshine purchase standards, and strictly implements internal procurement control procedures in bidding and procurement processes to review and assess suppliers.

The Company conducts on-site assessment and qualification assessment for new suppliers in accordance with the Basic Information Form of Suppliers. Prior to entering into cooperation with the Company, a new supplier is subject to a standardized procedure of product sample testing, sample procurement, batch procurement and regular procurement. The Company performs continuous monitoring over in-cooperation suppliers, and conducts annual and monthly audits that cover product pass rate, quality, and on-time delivery rate among others. If a supplier's product pass rate is lower than 98%, the Company will issue a Supplier Improvement Report to the supplier in writing, requesting rectification and a written reply indicating the corrective actions. The Company adjusts, re-approves and issues the Qualified Supplier List on a regular basis according to supplier audit results.

The Company requires suppliers to provide ISO 9001 quality certification and environmental audit reports, and conducts on-site assessment in supplier factories to ensure suppliers' compliance with the Company's standards in terms of quality and environmental performance. The Company imposes requirements on all suppliers that they comply with the EU RoHS Directive 2011/65/EU and the Company's environmental requirements, and signs the "Guarantee Letter for Not Using Hazardous Substances" with suppliers of materials for direct production.

4.2 Customer Service

Customer Service

The Company is committed to growing into a professional and trustworthy partner, focusing on customer service quality and customer satisfaction while providing high-quality products. The Company has formulated the "Customer Feedback Control Procedures", the "Corrective and Preventive Measures Control Procedures", the "Non-conforming Product Control Procedures" and other institutional documents and has been constantly making revisions. It has also established customer feedback work procedures to create a channel for customers to make inquiries, seek counseling and file complaints, standardized internal feedback processes for customer communication, inquiries, complaints and return of products.

The Company requires that, following a customer complaint, relevant departments shall take emergency countermeasures and initial responses within 24 hours and determine the ascription of responsibility within 48 hours; the accountable department shall propose an effective solution to the customer within 3 working days after responsibility ascription, and handle and close the customer compliant within 15 working days.

The Company has formulated a product recall control procedure to ensure timely and effective notifications to competent parties in the event of an emergency, so as to facilitate product recalls and reduction or avoidance of impact or loss to customers. In 2018, the Company had no product recalls.

Overview of Customer Feedback Control Procedures

Customer Communication	• Facilitates communication regarding quality and delivery of products • Collects opinions and feedback on quality of products and services
Customer Inquiries	• Responds to customers' inquiries via phone calls or in writing • Revises and handles documents such as contracts and orders
Customer Complaints Handling	• Conducts preliminary investigation and analysis of reasons of complaints, and completes the Quality Information and Feedback Form • Holds topic conferences to analyze the reasons and formulates response plans for urgent and important problems • Based on the results of the Quality Information and Feedback Form, the Customer Service Department takes corrective and preventive actions and coordinates with customers • Tracks the same batch of products to avoid problems from arising again • Considers measures which can be applied to other similar problems after the corrective and preventive actions have become effective
Customer Returns Handling	• Confirms the completeness regarding the name, quantity, specification and package of the returns, and delivers the Returns Application Form • Performs testing for and analyzes the returned products, and decides on how to handle the returned products based on the results

The Company organized six customer training sessions totaling around 20 hours to strengthen communication and exchanges with customers and improve customer service quality. For the purpose of fully identifying the key factors affecting customer satisfaction and constantly improving its service capabilities, the Company organizes customer satisfaction surveys on a quarterly or semi-annual basis, and produces regular analysis reports of customer satisfaction surveys to offer guidance to the Company's production, quality, technology and other related departments in their targeted corrective measures. In 2018, the Company organized two customer satisfaction surveys, with the surveyed satisfaction being 95.2%, higher than the target value.

Customer Privacy Protection

In strict compliance with the provisions in the Law of the People's Republic of China on the Protection of Consumer Rights and Interests, the Company has established a customer information and privacy protection mechanism, and formulated the "Property Control Procedures for Customers or External Suppliers". The Company signs confidentiality agreements and documents with customers in need, keeps customers' information strictly confidential, and fully respects and protects the legitimate privacy rights and interests of customers. In 2018, the Company had no customer information or privacy compromise.

4.3 Technology Innovation

Technology Innovation

The Company regards technological innovation as one of the important guarantees for providing high-quality products, and actively carries out quality research and product R&D guided by new technologies. The Company has established a provincial-level enterprise technology center, and maintains long-term industry-university-research cooperation with the Massachusetts Institute of Technology (MIT), General Research Institute for Nonferrous Metals, Jiangxi University of Science and Technology, Shanghai University, Northeastern University and other institutions of higher learning.

In 2018, the Company's research center, based on the Company's existing product techniques and processes, and in view of the Company's development needs, launched the technique and quality improvement research programs and 13 new technology R&D subjects involving technique research, product development, technology reserves and other aspects, in a bid to constantly improve the Company's innovative R&D capabilities.

In addition, the Company has drafted a number of industry standards and national standards, which have been widely recognized by customers and the society. In 2018, the Company participated in the revision of the national standard text and preparation instructions for "Copper and Copper Alloy Strips for Relays" and "Copper Alloy Plates for Non-lubricated Bearings". Both national standards were approved and rated as international advanced standards and national advanced standards.

The Company organizes the 2nd China Copper Plates and Strips Industry Development Summit

The 2nd China Copper Plates and Strips Industry Development Summit, sponsored by the China Nonferrous Metals Fabrication Industry Association and undertaken by the Company, was held on November 16-17, 2018, in the Hangzhou Bay New Area, Ningbo, Zhejiang, China. Mr. HU Minglie, chairman of the Company, made a speech at the forum.

The forum themed "solidarity and cooperation to embrace challenges together" discussed the key issues that constrain the development of China's copper plates and strips industry in an aim to seek further development through joint efforts and make breakthroughs for achieving the goal of "striving to build China's copper plates and strips industry into the world's first-class within three to five years." The forum attracted representatives from the heavyweight manufacturers in the domestic industry including Truchum, Xinke and Powerway, being one of the highest-level conferences in the industry.

Protection of Intellectual Property Rights

The Company strictly implements the stipulations in relevant laws and regulations such as the Patent Law of the People's Republic of China and the Trademark Law of the People's Republic of China, and has established an intellectual property management mechanism to strengthen the management and protection of intellectual property rights such as patents, trademarks and confidential information while avoiding infringing on the intellectual property rights of others and protecting the Company's competitive advantages and brand reputation.

In 2018, the Company obtained a total of 4 patents. During the reporting period, the Company had no infringement and right protection incidents related to intellectual property rights.

5. RESPONSIBILITY FOR EMPLOYEES

Adhering to the people-first principle, the Company actively safeguards legitimate rights and interests of employees, and strives to create a healthy, equal and positive occupational environment for employees with a sound career development platform. The Company strictly abides by relevant laws and regulations on labour and employment, and had no employment-related violations or lawsuits during the reporting period.

Total employees: 1,211
Employee turnover rate: 12.36%
Number of work-related fatalities: Nil
Lost working days due to work injury: 7
Percentage of employees trained: 100%
Average training hours per employee 25 hours

Note: The statistical coverage of above data is confined to the copper business segment.

5.1 Protection of Rights and Interests of Employees

Engagement and Basic Rights and Interests of Employees

The Company strictly abides by laws and regulations such as the Labour Law of the People's Republic of China, Law of the People's Republic of China on Employment Contracts, Law on the Protection of Minors, the Labour Union Law, Law of the People's Republic of China on the Protection of Rights and Interests of Women, and Regulations Concerning the Labour Protection of Female Staff and Workers of Zhejiang Province. It adheres to fair employment, implements the principle of equal employment and equal pay for equal work for employees of different genders, regions, religions, races and cultures, and prohibits employment of child or forced labour.

The Company signs labour contracts with employees in accordance with the law. Its labour contract signing rate and social insurance payment rate in 2018 were both 100%. The Company has formulated "Employee Handbook", formulated a well-designed salary system and rest periods and vacations systems among others to further standardize protection of employee rights and interests. In 2018, the Company had no violations of laws and regulations related to employee rights and interests, nor violations of child or forced labour.

Engagement and Basic Rights and Interests of Employees

Employment and Termination System

- Recruitment: equal employment, no forced labour
- Termination: severance of labour relationships in written form

Remuneration System

- The minimum wage standard for employees is 1.1 times that of the local government-mandated standard;
- The average salary growth rate is far higher than the government-indicative level in Ningbo.

Social Insurance

- The Company pays social insurance and housing provident fund in full and on time for all employees in accordance with related national standards;
- The Company pays housing provident fund and in-commute casualty insurance for employees.

Working Hours and Rest Periods and Vacations System

- Front-line employees are subject to the working hour examination and approval system;
- Employees are entitled to festival subsidies for working overtime during holidays and festivals.

Communications with and Care of Employees

For the purpose of better safeguarding employees' rights and benefits, strengthening democratic communications, and facilitating equal dialogues with employees, the Company has established the labour union, the workers' congress and the internal mediation committee. The labour union negotiated with the Company and signed the Collective Contract and the Wage Collective Bargaining Agreement, and signed the Agreement on Protection of Female Workers' Rights and Interests on behalf of employees. Meanwhile, the Company keeps improving its worker congress system and factory affairs disclosure system to ensure employees' rights to know, as well as rights for participation, expression and supervision.

The Company is committed to building a "happy home" by providing employees with free bus, free accommodation and other benefits to reduce employees' pressure for transportation, housing and other aspects of life. The Company has established the "Employee Mutual Aid Fund" and helped and supported 63 employees and employee family members in 2018. In addition, the Company organizes a variety of cultural and sports activities throughout the year to enrich the lives of employees and create a relaxed, healthy and pleasant working environment.

Benefits and Care Policies for Employees

Benefits Available to Employees

- Shuttle buses from work, vehicle subsidies, holiday subsidies, food subsidies, rent allowances, high temperature allowances, in-commute casualty insurance and others
- House purchasing subsidies and house purchasing interest rate subsidies for employees who purchase houses in certain areas
- Summer camps and semester tutoring classes for employees' children
- Cultural and sports activities such as travels on Women's Day, dating, factory celebrations, table tennis matches, billiards games, themed mountaineering, and Mid-Autumn Festival galas
- Establishment of mutual funds which cover employees and employees' family members.

Benefits Exclusive to Female Employees

- Female representatives in labour union based on the ratio of female employees in the Company
- The labour union negotiated and signed the Agreement on Protection of Female Workers' Rights and Interests with the Company on behalf of all female employees
- Female employees are entitled to state-stipulated benefits and Company-exclusive benefits during pregnancy, lactation and confinement periods
- Female employees are entitled to the Women's Day holiday, festival activities and festival gifts

The Company launches summer camps for employees' children

The Company launches summer camps for employees' children during summer vacations each year to eliminate the worries of employees. It provides teaching resources, venues, school supplies and food for the children of more than 100 employees, and hires teachers from local schools to impart and consolidate intracurricular knowledge and enhance the learning ability.

In addition, the Company opens free tutoring classes for employees' children on the evenings of working days to share with students learning methods and help them solve problems and better master essentials.

5.2 Occupational Health and Safe Production

Safety Production

The Company has formulated and strictly enforced its safety hazard investigation system, governance system, safe production target management system and safe production accident contingency plan management system among others. In 2018, the Company formulated and issued the "Safe Production, Environmental Protection, Occupational Health Assessment Measures" to further standardize management of safe production and employees' occupational health.

The Company develops annual plans for safe production every year. It has formulated safe production assessment measures to promote the implementation of safe production targets, requiring all departments and workshops to conduct at least one routine self-inspection of safety every month, monitor and evaluate major hazards on a regular basis, and conduct inspections on fire protection facilities in the factory area on a yearly basis. The Company regularly carries out various emergency exercises, including emergency exercises for natural gas leakage handling, emergency exercises for fire, and emergency exercises for hazardous waste leakage handling, which has laid a foundation for the Company's safe and stable internal operation.

In 2017, the Company won the title of "Demonstration Enterprise for Occupational Health Infrastructure Construction" evaluated by Ningbo Municipal Safe Production Administration. Ningbo Xingye Xintai New Electronic Materials Co., Ltd., a subsidiary to the Company, obtained the Class 3 Enterprise Certification for Safe Production Standardization. In 2018, the Company had no violations of the laws and regulations related to occupational health and safety.

The Company organizes emergency exercise for handling leakage of hazardous waste

The Company's Safety and Environmental Protection Office organized a company-wide emergency exercise for handling leakage of hazardous wastes to improve the Company's ability to respond to sudden-onset accidents and test the Company's emergency capability for handling hazardous waste leakage.

On the day of the exercise, each emergency team performed their own duties after the emergency procedure was initiated. The communication team was responsible for contacting professional rescue and medical teams, the rescue team was responsible for rescuing people and property, the security team was responsible for isolating the accident site, maintaining the security work during evacuation, and ensuring orderly evacuation, the evacuation team organized evacuation and on-site vehicle clearing as the situation required, and the equipment team was responsible for ensuring proper operation of emergency facilities and equipment. The emergency exercise was carried out in an orderly and intensive manner in accordance with the predetermined scheme.

The exercise improved the coordination ability of various emergency departments and personnel, strengthened employees' safety awareness and ability to respond to emergencies, further clarified respective duties of emergency personnel and improved the Company's emergency response capability.

Occupational Health

The Company has formulated a comprehensive occupational health management system in accordance with laws and regulations such as the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases and the Regulations on Prevention and Control of Occupational Diseases of Zhejiang Province. The system covers 13 sub-systems including the Prevention and Control System against Occupational Disease Hazards, the Warning and Notification System of Occupational Disease Hazards, and the Application System of Occupational Disease Hazard Programs, aiming to protect the occupational health of employees through standardized management. The Company's occupational health and safety management system complies with the GB/T 28001-2011idt OHSAS18001:2007 standard.

The Company has also established a leading group for occupational health in safe production and environmental protection. With the Company's leadership as the directly accountable person, the leading group has set up an office and management personnel for occupational health supervision in safe production and environmental protection to strengthen the management responsibility for occupational health and safety. The Company entrusts third parties on a regular basis every year to launch comprehensive detection for occupational hazards on relevant positions in various business departments. The detection targets high temperature, noise, welding fumes, etc. Based on the detection results, the Company strengthens protection measures for personnel and positions exposed to occupational disease risks.

In 2018, the Company established and improved its management over occupational health archives, and well carried out pre-job, on-job and off-job health checkups for personnel exposed to occupational disease hazards. The Company hires professional organizations to carry out regular safety education and training for employees and publicize the safety management system to strengthen employees' safety awareness.

The Company installs dedusting system in its R&D and trial-production workshop

The Company is committed to creating a green, safe, environmentally friendly and hygienic workshop environment. In 2018, the Company invested RMB300,000 to install a dedusting system for production of intermediate alloy equipment in the R&D workshop to create a safer and more environmentally friendly workshop environment and further ensure the occupational health of operators in the workshop. The system will be officially put into use after it passes the assessment.

5.3 Vocational Training and Development

The Company has set detailed job responsibilities for each employee, with a well-designed training and promotion system and a career development platform in place, as part of the effort to encourage employees to strengthen self-improvement and speed up career development with reasonable and effective assessment and promotion policies. In 2018, the Company optimized its post value evaluation mechanism and established a new performance evaluation system through analyzing key performance of each department to enable employee evaluation and assessment in a more scientific and fair manner, further promoting dual-path career development. Meanwhile, the Company also launched a new compensation system that matched the new evaluation mechanism.

In line with the needs of its development and job skills, the Company develops an annual training plan at the beginning of each year to enhance the professional competence and comprehensive quality of employees. The Company combines internal and external training programs to diversify the form and content of employee training. In 2018, the Company invited external training institutions to give internal training courses such as "IATF16949 System Standard Knowledge", "Five Tools of IATF: 16949", "New and Old Seven QC Techniques", and "8D Report". It also sent excellent or key employees of various departments for external training sessions.

In addition, the Company organizes reading clubs every year to heighten employees' passion for learning and create a learning atmosphere. It launched a youth training program, selected outstanding or key employees from various departments for external training sessions, and reserved young management talents for the Company's development. The Company also opened a "Xingye Junior College Class" to lay a platform for front-line employees to improve their cultural knowledge.

Overview of the Company's Training System

The Company's first graduates of "Xingye Junior College Class" wind up studies

In joint effort with Jiangxi University of Science and Technology, the Company opened "Xingye Junior College Class" for front-line workers in need to elevate the cultural level of front-line employees and improve their comprehensive quality and occupational competitiveness. Students of the class were dominated by front-line workers. Curricula of the class were primarily metal materials and mechanical courses, covering 14 disciplines related to professional skills such as CAD drawing, heat treatment technics, mechanical drawing and mechanical design basics, metal material basics and numerical control technology, and metal plasticity forming principle.

In August 2018, the first "Xingye Junior College Class" lasted three years was successfully completed. More than 30 employees from the production, technology, equipment, quality and other departments graduated and obtained the course-completion certificates. The class enabled front-line employees to improve their cultural knowledge as well as professional skills and re-employment ability.

6. RESPONSIBILITY FOR ENVIRONMENT

The Company attaches great importance to the impact on the ecological environment from its industrial development. It strictly abides by the requirements set forth in laws and regulations, constantly optimizes its production techniques, transforms its environmental protection facilities, strengthens recycling, and promotes resource conservation and pollutant emission reduction, to strive to pursue coordinated development of economic benefits and the natural environment.

Power consumption per unit output value 293.89 kWh/RMB10,000 output value
Natural gas consumption per unit output value 12.76 cubic metres/RMB10,000 output value
Water consumption per unit output value 0.68 cubic metres/RMB10,000 output value
Waste water discharge per unit output value 0.48 cubic metres/RMB10,000 output value
Density of greenhouse gas emissions 0.22 tonnes of carbon dioxide equivalent/RMB10,000 output value

Note: The statistical coverage of above data is confined to the copper business segment.

6.1 Environmental Management

Establishment of and Improvement in Environmental Management System

The Company has established a sound environmental management system in accordance with the Law of the People's Republic of China on the Prevention and Control of Water Pollution, the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, and the Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution. The Company has passed the GB/T 24001-2004 idt ISO 14001:2004 certification for environmental management system, and strictly observes the system requirements to formulate the "Environmental Management Procedures", the "Waste Management System", the "Waste Water Management Regulations" and other governing documents to offer Company-wide institutional basis for execution of environmental management policies in various operational activities such as procurement, storage and transportation, production and sales.

The Company developed the "Contingency Plan for Environmental Emergencies" and reported it to the environmental protection administration of the new area for record to cope with possible sudden environmental pollution incidents and improve the Company's environmental emergency responses. In 2018, the Company revised its Waste Management System and Waste Water Management Regulations in accordance with the latest laws, regulations and policies, with the revision including clarifying classification of wastes.

Strengthening the Responsibility System for Environmental Protection

In accordance with the requirements in the "Safe Production, Environmental Protection and Occupational Health Assessment Measures" formulated by the Company, the Company's leading group for occupational health in safe production and environmental protection is responsible for decision-making of environmental protection work and approval and management of the environmental protection system. The Company is equipped with dedicated institutions for environmental supervision, inspection and management, as well as full-time environmental protection persons in charge to facilitate environmental protection work.

In 2018, the Company set environmental protection work goals, requiring zero accidents that involve worker casualties, serious injuries and major fires in various business departments and workshops. To strengthen the environmental protection awareness of all employees, the Company organizes regular environmental protection-related training sessions and assessments. A total of 800 employees participated in the training in 2018.

Overview of Environment Management Performance

The Company focuses on copper processing and purchases high-quality copper raw materials such as refined copper or bright copper to produce high-precision copper plates and strips through a full set of smelting, rolling, heat treatment, cleaning, finishing and packaging processes. Main resources consumed in the production process include water, electricity and natural gas; main discharges produced include exhaust gas, production waste water, and hazardous and non-hazardous waste. The Company properly disposes of all kinds of discharges and sets up an automatic monitoring system in the factory area to monitor and control discharges in real time.

Resource Input	
Key Performance	2018
Water Resources	
Water consumption (cubic metre)	519,657
Water consumption per unit output value (cubic metres/RMB10,000 output value)	0.68
Energy	
Power consumption (MWh)	223,639
Power consumption per unit output value (cubic metres/RMB10,000 output value)	293.89
Natural gas consumption (cubic metre)	9,713,130
Natural gas consumption per unit output value (cubic metres/RMB10,000 output value)	12.76
Packaging Materials	
Total packaging materials used for shipment of finished products (tonne)	2,442

Melting
Rolling
Thermal treatment

Cleaning
Finishing
Packaging

Emission Output	
Key Performance	2018
Waste Water and Exhaust Gas	
Waste water discharge (cubic metre)	363,760
Waste water discharge per unit output value (cubic metres/RMB10,000 output value)	0.48
Wastes	
Total hazardous wastes (tonne)	850
Production of hazardous wastes per unit output value (tonne/RMB10,000 output value)	0.0011
Total non-hazardous wastes (tonne)	1,060
Production of non-hazardous wastes per unit output value (tonne/RMB10,000 output value)	0.0014
Greenhouse Gases	
Total emissions of greenhouse gases (tonne (carbon dioxide equivalent))	170,535.14

6.2 Use of Resources

Use of Energy

Main energy consumed during the Company's production includes electricity and natural gas. The Company has always been committed to reducing energy consumption and has placed energy conservation as one of its major operation orientations. The Company has formulated the "Implementation Plan for Energy Conservation and Emission Reduction". In 2018, the Company purchased energy-saving equipment and transformed old equipment to reduce energy consumption, with its energy consumption effectively reduced. In addition, the Company uses clean energy sources such as solar photovoltaic energy for power generation to improve energy efficiency while reducing greenhouse gas emissions.

Major Measures and Results of Energy Conservation

Frequency conversion system for continuous annealing furnace motor

- The continuous annealing furnace motor adopts the frequency conversion system. The system uses DC busbar for power supply and S120 or G120 frequency converter. The system saves around 36 kWh of power a year if we assume the total capacity of frequency converter to be 860 KW and the average energy saving rate to be 5%.

Supporting frequency converting system for oil mist exhaust purification facilities

- The Company equips 4 frequency converting systems for oil mist exhaust purification facilities. The system adopts Senlan frequency converter and saves around 156,000 kWh of power a year if we assume the total capacity of frequency converter to be 360 KW and the average energy saving rate to be 5%.

Supporting frequency converting system for fumes absorption and handling facilities

- The Company equips 4 frequency converting systems for fumes absorption and handling facilities. The system adopts Mitsubishi frequency converter and saves around 144,000 kWh of power a year if we assume the total capacity of frequency converter to be 332 KW and the average energy saving rate to be 5%.

Fumes waste heat recovery and heating system

- The Company recovers the fumes from the continuous annealing furnace and installs a waste heat recovery and heating system which adopts "fumes - hot water heat exchanger" to heat water using waste heat from the air compressor. The system saves around 1.08 million kWh of power a year.

Use of Water Resources and Packaging Materials

The Company uses the municipal water supply of Hangzhou Bay Water Supply Company in Hangzhou Bay New Area, indicating a small risk in running problems for getting suitable water sources. The Company treats and reuses acid waste water to improve water use efficiency and reduce water consumption. In 2018, the Company invested RMB300,000 to improve its water recycling equipment system, and the new system can reuse and treat up to 20,000 cubic metres of water. Main packaging used by the Company is made of wood, which reduces resource use by recycling and reusing the wrappage. In 2018, the Company recycled and reused 60 tonnes of wood.

6.3 Discharge Management

Exhaust Gas and Waste Water Discharge Management

Waste water generated by the Company primarily includes production waste water and domestic waste water. The production waste water includes alkali rinsing waste water, acid pickling waste water and emulsified waste water. Main pollutants are pH, suspended solids, oil, and COD pollutants. Main sources of domestic waste water are drainage from office buildings, offices, cafeterias, bathhouses, etc. The Company has established a waste water treatment system to use treated water as circulating water as needed, or discharge the up-to-standard treated water in a uniform manner through the discharge outlet.

The Company regularly measures and monitors waste water discharge, and the Company's Safety and Environmental Protection Office is responsible for supervision and management of waste water discharge. The Company has formulated the Emergency Preparedness and Response Procedures to ensure timely responses to emergencies that may incur discharge or leakage of hazardous water pollutants in the factory and prevent serious water pollution incidents.

In 2018, the Company renovated waste water treatment system totaling 300 cubic meters. The renovated waste water treatment system can enable centralized recovery and treatment of production waste water, and reduce the concentration of COD pollutants in waste water to below 300 mg/L, ensuring stable and up-to-standard discharge of waste water. It is estimated that the system helped the Company reduce waste water discharge by about 5,000 cubic metres throughout the year of 2018.

Waste Water Discharge Categories and Standards

Scope of Discharge	Category of Discharge	Discharge Standard in Effect	Standard Compliance
Production waste water	pH, COD_{Cr}, BOD_5, suspended solids, oil pollutants	Level 3 of Comprehensive Sewage Discharge Standard (GB8978-1996)	Compliant
	Ammonia nitrogen and total phosphorus	Waste water Quality Standards for Discharge to Municipal Sewers (CJ343-2010)	Compliant
	First-category pollutants, e.g. lead and nickel etc.	The maximum allowed discharge concentration of first-category pollutants in Comprehensive Sewage Discharge Standard (GB8978-1996)	Compliant
	Total tin	Discharge standard of Comprehensive Sewage Discharge Standard of Shanghai City (DB31/199-1997)	Compliant
	Total iron	Discharge standard of Concentration Limits of Total Iron in Acid Pickling Waste Water (DB33-844-2011)	Compliant
	Total copper	Level 1 of Comprehensive Sewage Discharge Standard (GB8978-1996)	Compliant

The pollutants contained in the Company's production fumes are primarily the exhaust gas generated by annealing furnaces, the oil mist generated during rolling and the acid mist generated during acid pickling. The Company is committed to exhaust gas treatment and up-to-standard discharge. In 2018, it invested about RMB6.6 million to add exhaust gas purification devices of various types for the purpose of environmental pollution prevention, environmental protection and clean production.

Exhaust Gas Emission Categories and Standards

Scope of Discharge	Category of Discharge	Discharge Standard in Effect
Exhaust gas	Fumes from annealing furnaces	Level 2 of Air Pollutant Emission Standard for Industrial Kilns and Furnaces (GB9078-1996)
	Rolling oil mist	Air Pollutant Emission Standard for Steel Rolling Industry (GB28665-2012)
	Pickling acid mist	Level 2 standard for new pollutant sources in Comprehensive Air Pollutant Emission Standard (GB16297-1996)

Major Measures and Results of Exhaust Gas Emission Reduction

Major Measures	Major Emission Reduction Results
Installed 4 oil mist exhaust purification facilities	Oil mist purifiers were used to recover exhaust. It is estimated that around 20,000 kilogram of oil mist exhaust emission was reduced throughout the year.
Installed 12 acid mist exhaust absorption and processing facilities	Acid mist exhaust was purified to meet the related environmental protection requirements.
Installed 4 fumes absorption and handling facilities	Bag-type dust collectors were used to capture as high as 99.9% of fumes, with the emission concentration being ≤ 20 mg.

In August 2018, the Company received the "Decision on Administrative Penalties" issued by Ningbo Municipal Environmental Protection Bureau and was subjected to a fine of RMB130,000 as two sets of acid mist recovery facilities on the Company's acid pickling production line failed to maintain proper usage, resulting in a direct emission of generated untreated exhaust acid mist to the environment, violating section 2 of Article 20 of the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution.

The Company attached great importance to the incident and made rectification following relevant operating procedures, including proper use of acid mist recovery facilities as required, spot inspections and confirmation of acid mist treatment equipment, weekly detection of the spray liquid in the acid mist absorption tower - the acid mist treatment facility, and at least two rounds of supervision and inspection on operational procedures a month, and passed the re-examination by Ningbo Municipal Environmental Protection Bureau. In view of this incident, the Company will continue to improve its exhaust gas management system and further strengthen the supervision mechanism of exhaust gas emissions.

Waste Management

Non-hazardous waste produced by the Company primarily includes slag, copper scrap, and leftover bits and pieces in workshops. The Company has established the Recycling Resources Division to entrust qualified organizations for uniform handling of waste paperboards, waste plastics and other materials and selling and reuse of iron plates to strengthen effective use of resources.

Hazardous waste produced by the Company primarily includes fly ash from smelting, copper-containing sludge, and waste mineral oil. For hazardous wastes, the Company strictly implements the "Standards for Control of Hazardous Waste Storage Pollution", uses qualified waste disposal units to dispose of such waste, and handles special approval formalities in accordance with the law while strictly implementing the double-entry system for hazardous waste transfers.

In 2018, the Company introduced a sludge concentration and dewatering machine to separate heavy oil, light oil and water from the diatomaceous earth for cleaning the rolling mill in the rolling mill workshop. The oil content of the diatomaceous earth residue processed by the sludge concentration and dewatering machine was less than or equal to 0.05%, which reduced the discharge of hazardous waste. Meanwhile, the treated waste oil, if tested to be up-to-standard, can be reused. The machine helped the Company to recover around 3.5 tonnes of waste oil in 2018.

6.4 Green Office Operation

The Company adheres to the "energy-saving, low-carbon and green development" philosophy and pays attention to environmental protection education for employees. It improves employees' awareness for energy conservation and emission reduction through daily management of energy conservation and consumption reduction in all premises and improvement of relevant systems, in a bid to make energy conservation and consumption reduction a conscious action of all Company members.

The Company adopts and promotes various energy conservation and emission reduction measures, provides shuttle buses for employees, and advocates the use of public transport means to replace private cars. It promotes rationed use of electricity, installs energy-saving lamps, and properly configures the temperature of air conditioners. It also encourages double-sided printing of non-official documents to reduce resource consumption and waste discharge during office operations. In addition, the Company invests in greening of the factory area every year to create a more beautiful and healthy working environment for employees.

Major Measures and Results of Green Office

Scope	Major Measures	Major Results
Paper conservation	Encouraged employees to save paper use, and advocated double-sided printing of non-official documents and reuse of paper of single-sided printing	It is estimated that 2.19 million pieces of paper were saved a year.
Electricity conservation	Installed energy-saving lamps	It is estimated that 100,000 kWh of power was saved a year.
	Implemented system of responsibility zones to ensure that power was turned off when everybody in the office room was off from work	
	Advocated saving water and power and settled the temperature of air conditioners	
Oil conservation	Provided shuttle buses for employees	/[1]
	Advocated the use of public transport means to replace private cars	

Note:

1. The Company hasn't quantified the oil conservation result yet.

7. RESPONSIBILITY FOR COMMUNITY

The Company adheres to the operation philosophies of "employee-pleased, customer-impressed, shareholder-satisfied and society-recognized" and regards "society-recognized" as an integral part in its corporate cultural system by actively launching various public service activities in the community and better reward the society with practical actions.

Public service investment RMB:189,200
Beneficiaries of the Company's public service programs: 182
Volunteering hours of employees: 1,373

Note: The statistical coverage of above data is confined to the copper business segment.

7.1 Active Engagement in Social Public Services

The Company is devoted to serving the society and actively launches various public service activities for communities. In 2018, the Company actively participated in social welfare undertakings, and contributed to public welfare undertakings by making charitable donations and organizing volunteer services for employees. The Company supports the development of education cause. In 2018, it donated scholarships and fellowships worth RMB120,000 to Jiangxi University of Science and Technology and Dongyi Primary School to encourage students to study hard and extend gratitude to educators for their hard work. In addition, the Company invested RMB69,200 to sponsor the "Xingye Summer Camp" program, which invited teachers and provided venues to give tutorship to employees' children.

To fully mobilize employees to participate in public welfare undertakings, the Company organized employees to set up the "Aramina" volunteer service team. With "being a most ordinary people to do most ordinary things" as its slogan, the team actively participated in environment cleaning activities, afforestation activities and Ningbo international marathon volunteering cheerleading activities around the Company. In 2018, a total of 182 people benefited from the social welfare programs undertaken by the Company.

"Aramina volunteer service team" provides services to Ningbo international marathon opening

The Company organized 15 volunteers to form a marathon volunteering cheerleading team when the 2018 Ningbo International Marathon was about to open in Hangzhou Bay to support the sports undertakings in the new area and embody the contributing spirit of the team. Volunteers diligently rehearsed the marathon cheering program in their spare time and staged a entertaining show to athletes on the day of the marathon opening.

8. GAMING BUSINESS

Zhangyue Technology, a subsidiary of Huan Yue Interactive, adheres to the artisan spirit of "creating a competitive game experience" and always provides the best-quality game products and experiences for its masses of users. In 2018, Zhangyue Technology strictly abided by various laws and regulations and had no violations of laws and regulations.

8.1 Responsibility for Products

Guarantee of Product Quality

Zhangyue Technology keeps providing high-quality game products for the masses of users, strives to improve product quality, and augments technical innovation to constantly optimize users' gaming experience. Zhangyue Technology formulated the "Intellectual Property Right Management System" in accordance with the "Trademark Law of the People's Republic of China", "Copyright Law of the People's Republic of China", "Regulations for the Protection of Computer Software" and other laws and regulations to protect intellectual property rights held by the Company, strengthen intellectual property rights management and encourage technical innovation.

To ensure the quality of gaming products, the company's R&D Center and Operation Center are responsible for filling out game evaluation reports and proposing suggestions for game quality based on the evaluation reports before releasing game products. In 2018, Zhangyue Technology kept optimizing the details, developed cross-platform editions of games, established network shortlinks, improved game stability, and optimized user experience. At the same time, the Company augmented innovation and launched "Legend of the Remote Antiquity", "Cute and Interesting Hospital", "Magic Three Kingdoms", "Hot-Blood World H5" and many other new products.

Standardization of Marketing Campaigns

Zhangyue Technology strictly abides by laws and regulations such as "Advertisement Law of the People's Republic of China", "Interim Measures for Online Game Management", and "Notice on Implementing the 'Interim Measures for Online Game Management'" as well as "Self-discipline Convention for China's Game Industry" to standardize internal marketing and promotion behaviors while regulating the market environment and order of the game industry and protecting legitimate rights and interests of all enterprises and consumers in the industry. Meanwhile, Zhangyue Technology focuses on protecting the physical and mental health of minors and adopts various measures to minimize or eliminate possible negative impact of games on players.

The Company establishes an anti-addiction system for game players to protect users' physical and mental health

To prevent users from indulging in games for a long time, Zhangyue Technology sets an "Advice for Healthy Playing of Games" on the game login page to remind users of reasonably arranging gaming time.

In addition, the game platform determines whether a registered user is 18 years old or older based on the ID card information on the platform, and includes the users under 18 years old into the anti-addiction system. The game automatically pops up the anti-addiction prompt box when an underage user logs in, plays the game for 1 hour and 3 hours, and reduces the system rewards from the game. When an underage player plays the game for 5 hours, the system will automatically log the user off. With the anti-addiction system, the Company is able to well curb minors' long-time indulgence in games.

Customer Service Enhancement

Zhangyue Technology is committed to improving the customer service quality and has developed a customer service system featuring "five indicators for lean production" that is strictly implemented and constantly optimized. It attaches high importance to communications with customers, and carries on customer follow-up management to understand customer feedback and give positive responses. Zhangyue Technology has established a "Customer Complaint Plan Mechanism" to address customer concerns in a timely manner, enhance cooperation and communication with customers, and achieve common development with customers.

Zhangyue Technology has formulated the "Personal Information and Privacy Protection Policy for Game Users" to implement the "Interim Measures for Online Game Management" promulgated by the Ministry of Culture and the "Notice on Implementing the 'Interim Measures for Online Game Management'", aiming to strengthen its management over acquisition and use of users' personal information and privacy and better protect users' information security. Customer service personnel will inspect user information and privacy protection work on a regular basis, and timely report any issues discovered to competent departments for solution. During the reporting period, the company had no violations related to user information and privacy compromise.

Zhangyue Technology organizes customer surveys twice a year in the form of "User Satisfaction Survey Questionnaire" with not less than 200 respondents in each survey. The user satisfaction survey result for 2018 stood at 89 points, a steady rise over the last year.

Customer Service System of Zhangyue Technology

8.2 Responsibility for Employees

Rights and Interests and Development of Employees

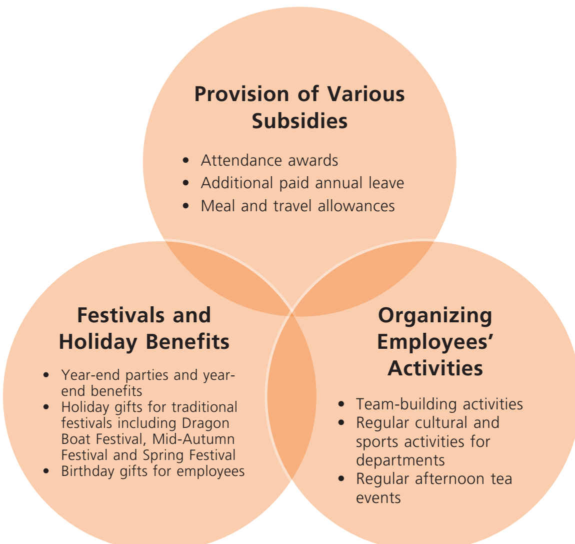
Zhangyue Technology strictly abides by relevant national laws and regulations such as the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Law on the Protection of Minors, adheres to equal employment, and pays social insurance and housing provident fund in full and on time for all employees. It does not discriminate against employees by gender, age, region, ethnicity, race and religious beliefs, implements a non-differential compensation system, ensures equal pay for equal work for both male and female employees, and provides an open, equal, warm and energetic working environment for employees.

Based on the personal development needs of employees, Zhangyue Technology has established a comprehensive compensation and benefit system, and formulated relevant systems such as the "Remuneration Management Measures" and "Rules for Employee Performance Appraisal Implementation". For the purpose of standardizing employee performance management and offering employees benign incentives, the Human Resources Department takes employee development statuses into account and has developed diversified growth paths for employees. The department has also formulated annual performance appraisal programs and training programs for employees, and evaluated the training performance.

In 2018, the Company launched training sessions on PS operation, building numerical models, H5 game client architecture design and other diversified employee training courses to allow employees to keep improving their comprehensive quality and give full play to their own value.

Care for Employees

Zhangyue Technology has developed a "Benefits Management System" covering all employees to improve employees' sense of happiness. In addition, the Human Resources Department regularly organizes internal activities with various themes to enrich the lives of employees and create a warm and harmonious working atmosphere for employees.



The Company offers diverse activities for employees to create a pleasant working environment

The Human Resources Department has organized various employee activities to enrich employees' sparetime life. In 2018, the department held the Women's Day themed activity, the Children's Day afternoon tea event, the Qixi Festival networking event, outdoor team building activities, the "Werewolves of Miller's Hollow" game, as well as internal basketball matches and badminton matches. The diversified team building and cultural and sports activities have enhanced communications between employees, relieved their work stress, and created a harmonious and healthy working atmosphere.

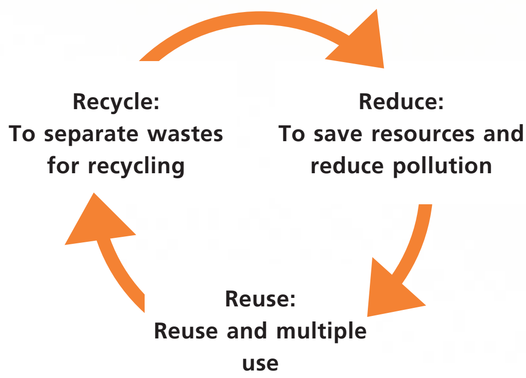
8.3 Responsibility for Environment

Green Office

Zhangyue Technology strictly abides by relevant national laws and regulations on environmental protection. In daily operation, it implements green office in an all-round manner referring to the 3R rules (reducing, reusing and recycling) of circular economy. Its offices adopt measures such as reasonable setting of air-conditioning temperature, promoting water and power conservation, and encouraging paperless procedures to achieve the goal of energy conservation and emission reduction. Meanwhile, the company places green plants in the office area to improve the workplace environment of employees.

Principle of 3R

Measures of Green Office



Resources Conservation

- Advocated saving water and power and rationally setting the temperature of air conditioners
- Switched off the office equipment in a timely manner when it is not in use

Paper Conservation

- Promoted paperless office
- Encouraged employees to save paper and adopt double-sided printing

Low-carbon Travel

- Encouraged employees to use public transport to reduce exhaust gas emissions

8.4 Responsibility for Suppliers and Supplier Compliance Management

Supplier Management

Zhangyue Technology has formulated the "Supplier Management System" to improve the supplier procurement process and the supervision mechanism and regulate management of suppliers. Zhangyue Technology has established a unified material supplier repository and implements a supplier access system. All suppliers are required to fill out the Supplier Survey Form and provide corresponding qualification information for review. Qualified suppliers are required to stay subject to dynamic management including evaluations and assessments on a regular basis.

Compliance Management

Zhangyue Technology adheres to the moral conception and conduct code of being honest and trustworthy, as well as conscientious and responsible, and formulates the "Code of Conduct of Employees for Anti-Bribery and Anti-Corruption". It resolutely puts an end to commercial bribery activities, establishes a sound business order, creates a favorable development environment, and pursues maximum benefits for customers, shareholders, employees and the society. The code of conduct clearly stipulates that employees must comply with anti-corruption laws and regulations, setting forth the mechanisms and procedures for, and providing channels for internal supervision and reporting.

To improve the compliance awareness of all employees, the Human Resources Department organizes at least three anti-corruption and anti-bribery-related training sessions for all employees each year. During the reporting period, the company had no cases of corruption lawsuits filed or concluded by employees.

9. SOCIAL RECOGNITION

Honors and Accredited Certifications in 2018	Issued by
National Enterprise Technology Center	National Development and Reform Commission, Ministry of Science and Technology, Ministry of Finance, General Administration of Customs, and State Taxation Administration
Manufacturing Enterprise for Championship Cultivation of Ningbo City	Ningbo Municipal Commission of Economy and Information Technology
Outstanding Enterprise Technical Innovation Team of Ningbo City	Ningbo Municipal Human Resources and Social Security Bureau
The 58th enterprise in Top 100 Enterprises in Terms of Comprehensive Strength of Ningbo City	Ningbo Enterprises Association, Ningbo Entrepreneurs Association, and Ningbo Municipal Federation of Industrial Economics
Ningbo Top 50 Private Enterprises	Ningbo Municipal Federation of Industry and Commerce
Outstanding Contribution to Nonferrous Metals Industry (HU Changyuan)	China Nonferrous Metals Fabrication Industry Association
Innovative Zhejiang Businessman at 40th Anniversary of Reform and Opening-up (HU Minglie)	Businessman Seminar Zhejiang
Cutting-edge Ningbo Businessman at 40th Anniversary of Reform and Opening-up (HU Minglie)	Ningbo Businessman Development Seminar of Ningbo City
IATF16949:2016	TUV Nord

10. KEY QUANTITATIVE PERFORMANCE TABLE

10.1 Environmental Performance

Environmental Performance of Shengtai Group

Indicators	**Unit**	2016	2017	**2018**
Use of Resources				
Power consumption	MWh	198,049	208,224	**223,639**
Power consumption per unit output value	KWh/ RMB10,000 output value	327.46	272.21	**293.89**
Natural gas consumption	Cubic metre	9,376,091	9,370,359	**9,713,130**
Natural gas consumption per unit output value	Cubic metre/ RMB10,000 output value	15.50	12.25	**12.76**
Total solar power	KWh	0	7,103,300	**6,747,660**
Solar power per unit output value	KWh/ RMB10,000 output value	0	9.29	**8.87**
The driving kilometres of shuttle bus and vehicles for employees	Kilometer	150,525	151,285	**390,000**
Oil consumption of shuttle bus and vehicles for employees	Liter	62,587	63,627	**74,000**
Water consumption	Cubic metre	440,400	619,008	**519,657**
Water consumption per unit output value	Cubic metre/ RMB10,000 output value	0.73	0.81	**0.68**
Circulating water consumption	Cubic metre	–	594,248	**494,000**
Reuse ratio of water resources	%	–	96	**95**
Total packaging materials used for shipment of finished products[1]	Tonne	2,011	2,485	**2,442**
Usage of packaging materials used for shipment of finished products per unit output value	Tonne/ RMB10,000 output value	0.0033	0.0032	**0.0032**
Usage of packaging materials (wood) for finished products[1]	Tonne	1,263	1,597	**1,781**
Usage of packaging materials (wood) per unit output value	Tonne/ RMB10,000 output value	0.0021	0.0021	**0.0023**
Usage of packaging materials (corrugating medium) for manufactured products	Tonne	509	647	**536**
Usage of packaging materials (corrugating medium) per unit output value	Tonne/ RMB10,000 output value	0.0008	0.0008	**0.0007**

Indicators	Unit	2016	2017	2018
Emissions				
Waste water discharge[2]	Cubic metre	–	415,947	**363,760**
Waste water discharge per unit output value	Cubic metre/ RMB10,000 output value	–	0.54	**0.48**
Production of hazardous wastes	Tonne	505	650	**850**
Production of hazardous wastes per unit output value	Tonne/ RMB10,000 output value	0.0008	0.0008	**0.0011**
Production on non-hazardous wastes	Tonne	866	892	**1,060**
Production of non-hazardous wastes per unit output value	Tonne/ RMB10,000 output value	0.0014	0.0012	**0.0014**
Total non-hazardous wastes recycled for reuse	Tonne	631	650	**760**
Total non-hazardous wastes buried	Tonne	235	242	**300**
Times of fines imposed due to violation acts in discharge of pollutants	Time	0	0	**1**
Total emissions of greenhouse gasess[3] (Range 1)	tCO2e	20,467.34	20,457.74	**20,766.47**
Total emissions of greenhouse gases (Range 2)	tCO2e	134,825.16	141,751.96	**149,768.67**
Total emissions of greenhouse gases[3]	tCO2e	155,292.50	162,209.70	**170,535.14**
Emissions intensity of greenhouse gases[3]	tCO2e/ RMB10,000 output value	0.26	0.21	**0.22**

Note:

1. According to the review result, the usage of packaging materials (wood) for manufactured products for 2016 and 2017 of the Company was 1,263 and 1,597 tonnes; the corresponding usage of packaging materials (wood) per unit output value was 0.0021 and 0.0021 tonne/RMB10,000 output value.

2. Waste water discharge of 415,974 cubic metres for 2017 was adjusted in this report, being the industry waste water discharge; waste water discharge for 2018 was industry waste water discharge.

3. According to the review result, the greenhouse gas emission data for 2015, 2016 and 2017 disclosed in the 2017 ESG Report of the Company contains errors. The actual data of the total greenhouse gas emission (range 1) for 2015 was 15,257.89 tCO2e, the total greenhouse gas emission in 2015 was 115,239.91 tCO2e, the greenhouse gas emission density in 2015 was 0.29 tCO2e/RMB10,000 output value; the actual data of the total greenhouse gas emission (range 1) for 2016 was 20,467.34 tCO2e, the total greenhouse gas emission in 2016 was 155,292.5 tCO2e, the greenhouse gas emission density in 2016 was 0.26 tCO2e/RMB10,000 output value; the actual data of the total greenhouse gas emission (range 1) for 2017 was 20,457.74 tCO2e, the total greenhouse gas emission in 2017 was 162,209.70 tCO2e, the greenhouse gas emission density in 2017 was 0.21 tCO2e/RMB10,000 output value.

Environmental Performance of Zhangyue Technology

Indicators	Unit	2017	2018
Green Office			
Total water consumption	Tonne	2,547	**4,234**
Water consumption per unit floor area	Tonne/sq m	3.00	**4.98**
Total electricity consumption	kWh	87,953	**87,098**
Power consumption per unit floor area	Tonne/sq m	103.6	**102.5**

10.2 Social Performance

Number of Employees

Indicators		Unit	2016[1]	2017	2018
Number of Employees					
Total employees		Person	1,069	1,259	**1,290**
By gender	Male	Person	894	1,037	**1,071**
	Female	Person	175	222	**219**
By employment type	Labor contract system	Person	1,041	1,203	**1,233**
	Rehiring after retirement	Person	28	56	**57**
By age group	>50 years old	Person	189	170	**172**
	30 to 50 years old	Person	588	710	**776**
	<30 years old	Person	292	379	**342**
By region	Mainland employees	Person	1,065	1,251	**1,281**
	Foreign employees	Person	6	8	**9**

Note:

1. Zhangyue Technology is not covered in the statistic scope for calculating the number of employees in 2016.

Regular Employment and Labor Performance of Shengtai Group

Indicators		Unit	2016	2017	2018
Employment and Employee Rights and Interests					
Employee turnover rate[1]		%	24.44	14.48	**24.78**
By gender	Female	%	18.22	20.36	**17.50**
	Male	%	33.51	29.51	**26.06**
By age group	>50 years old	%	10.84	6.09	**12.50**
	30 to 50 years old	%	26.24	20.62	**20.87**
	<30 years old	%	35.47	44.47	**37.55**
By region	Mainland employees	%	24.44	22.21	**24.83**
	Foreign employees	%	0	0	**0**
Number of labor dispute events		Dispute	0	0	**0**
Care for Employees					
Fund input for all kinds of subsidies, free shuttle bus and dormitory accommodation		RMB10,000	310	165	**258**
Specifically, the fund input for free shuttle bus and dormitory accommodation benefits for employees		RMB10,000	70.5	38.0	**80.0**
Number persons who benefit from all kinds of subsidies, free shuttle bus and dormitory accommodation		Person	2,560	2,580	**2,598**
Specifically, the number of employees receiving free shuttle bus benefits		Person	225	230	**205**
Specifically, the number of employees receiving free dormitory accommodation benefits		Person	210	215	**200**
Employee Satisfaction Survey Result		Score	90.2	89.7	**88.9**
Fund input for greening the plant area		RMB10,000	25.0	29.0	**28.0**

Indicators	Unit	2016	2017	2018
Occupational Health and Safety				
Number of employees found engaged in work in which occupational health risk may exist	Person	0	0	**0**
Number of employees suffering occupational diseases	Person	0	0	**0**
Incidence of occupational disease	%	0	0	**0**
Percentage of employees receiving occupational physical examination among those who are engaged in work in which occupational health risk may exist	%	100	100	**100**
Number of work-related fatalities	Person	0	0	**0**
Ratio of work-related fatalities	%	0	0	**0**
Lost days due to work injury	Day	850	400	**830**
Attendance of safe production training	Attendance	2,529	2,865	**5,381**
Number of safe production trainings	Time	68	86	**110**
Total input for safety operation[2]	RMB10,000	750	985	**650**
Number of emergency drill activities	Time	2	3	**6**
Number of employees participating in emergency drill activities	Attendance	150	207	**157**
Number of events of violation in safety laws and regulations	Time	0	0	**0**
Number of major accidents	Accident	0	0	**0**

Indicators	Unit	2016	2017	2018
Training and Development of Employees				
Attendance of employee training[3]	Attendance	1,910	2,952	**12,639**
Input for employee training	RMB10,000	95.5	53.9	**51.0**
Percentage of employees trained	%	100	100	**100**
Percentage of male employees trained	%	100	100	**100**
Percentage of female employees trained	%	100	100	**100**
Percentage of junior employees trained	%	100	100	**100**
Percentage of middle level employees trained	%	100	100	**100**
Percentage of senior management employees trained	%	100	100	**100**
Average training hours per employee	Hour	21.4	26.6	**25.0**
Average training hours per male employee	Hour	21.9	27.3	**24.8**
Average training hours per female employee	Hour	20.7	25.8	**26.1**
Average training hours per junior employee training	Hour	20.2	26.1	**28.0**
Average training hours per middle level employee	Hour	67.0	46.0	**45.0**
Average training hours per senior management employee	Hour	58.0	35.0	**40.0**

Note:

1. The employee turnover rate is calculated by the following formula: Employee turnover rate

$$= \frac{\text{Total number of retired and separated employees}}{\text{Total number of employees at the period end + Total number of retired and separated employees}} \times 100\%$$

2. The total input for safety operation in the above table is primarily used for granting of articles for labour protection, addition of safety protection measures, training of safe production and education, safety evaluation counselling, contingency plan assessment, exercises and fire-fighting facilities among others.

3. The Company reinforced its internal safety and operational procedure training in 2018 with the training frequency greatly increased compared with previous years. As a result, the attendance of trainings and the number of training hours grew significantly, but there were no substantial increase in training cost.

Supply Chain Management Performance of Shengtai Group

Indicators		Unit	2016	2017	2018
Total number of suppliers		Supplier	171	211	**217**
By region	Local suppliers	Supplier	155	195	**211**
	Overseas suppliers	Supplier	16	16	**6**
Number of visits		Time	1	0	**36**
Number of suppliers assessed from the environment, labour and moral perspectives based on the Company's supplier assessment system		Supplier	2	3	**12**
Contractual disputes with suppliers		Dispute	0	0	**0**
Compliance training hours for supplier		Hour	18	18	**20**
Number of persons participating in compliance training from supplier		Person	2	9	**10**

Product Responsibility Performance of Shengtai Group

Indicators	Unit	2016	2017	2018
Percentage of products that must be recalled for safety and health reasons in the total products that have been sold or delivered	%	0	0	**0**
Number of customer complaints due to product quality or service	Time	1,142	1,338	**1,041**
Complaint handling rate[1]	%	100	100	**100**
Fund input for technology innovation and R&D	RMB10,000	15,340	11,062	**12,900**
National awards and subsidies for technology innovation and R&D	RMB10,000	971.7	2,173.9	**1,015.0**
Number of patent applications	Patent	12	5	**3**
Number of patents granted	Patent	1	6	**4**
Number of trademark applications	Trademark	1	0	**0**
Number of trademarks granted	Trademark	0	3	**0**

Note:

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

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

Product Responsibility Performance of Zhangyue Technology

Indicators		Unit	2017	2018
Responsibility for Products				
Technology Innovation	Number of software production rights	Right	4	**7**
	Fund input for technology innovation and R&D	RMB	8,987,521.3	**5,822,946.2**
Responsibility for Products	Number of customer complaints due to product quality or service	Time	0	**0**
	Number of user satisfaction surveys	Time	2	**2**
	User satisfaction score	Score	80	**84**

Anti-corruption Performance of Shengtai Group

Indicators	Unit	2016	2017	2018
Number of corruption lawsuits brought against the Company and its employees	Time	0	0	**0**
Number of reports of corruption from employees	Time	0	0	**0**
Attendance of employees participating in compliance training	Attendance	1,910	2,952	**2,980**

Community Investment Performance of Shengtai Group

Indicators	Unit	2016	2017	2018
Total input in public services	RMB10,000	15.67	16.32	**18.92**
Total beneficiaries of public service programs	Person	97	90	**182**
Number of employees participating in volunteer activities	Attendance	75	92	**180**
Total hours of employees participating in volunteer activities	Hour	1,580	1,760	**2,636**

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

Aspect, General Disclosure and Key Performance Indicators		Report Chapters
Subject Area A. Environment		
Aspect A1. Discharge		
General Disclosure A1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	6. Responsibility for Environment The Company has always been committed to reducing greenhouse gas emissions and has not yet developed greenhouse gas emission policies
KPI A1.1	The types of emissions and respective emissions data.	6.3 Pollutant Discharge and Management 10. Key Quantitative Performance Table
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	10. Key Quantitative Performance Table
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	
KPI A1.5	Description of measures to mitigate emissions and results achieved.	6.3 Pollutant Discharge and Management
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	6.3 Pollutant Discharge and Management

Aspect, General Disclosure and Key Performance Indicators		Report Chapters
Aspect A2. Use of Resources		
General Disclosure A2	Policies on the efficient use of resources, including energy, water and other raw materials.	6. Responsibility for Environment
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	10. Key Quantitative Performance Table
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	6.2 Use of Resources
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	6.2 Use of Resources
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	6.2 Use of Resources 10. Key Quantitative Performance Table
Aspect A3. The Environment and Natural Resources		
General Disclosure A3	Policies on minimising the issuer's significant impact on the environment and natural resources.	6. Responsibility for Environment
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	6.1 Environmental Management

Aspect, General Disclosure and Key Performance Indicators		Report Chapters
Subject Area B. Social		
Aspect B1. Employment		
General Disclosure B1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	5. Responsibility for Employees
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	10. Key Quantitative Performance Table
KPI B1.2	Employee turnover rate by gender, age group and geographical region	10. Key Quantitative Performance Table
Aspect B2. Health and Safety		
General Disclosure B2	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	5. Responsibility for Employees
KPI B2.1	Number and rate of work-related fatalities.	10. Key Quantitative Performance Table
KPI B2.2	Lost days due to work injury	10. Key Quantitative Performance Table
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	5.2 Occupational Health and Safe Production

Aspect, General Disclosure and Key Performance Indicators		Report Chapters
Aspect B3. Development and Training		
General Disclosure B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	5. Responsibility for Employees
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	10. Key Quantitative Performance Table
KPI B3.2	The average training hours completed per employee by gender and employee category	10. Key Quantitative Performance Table
Aspect B4. Labour Standards		
General Disclosure B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a signiticant impact on the issuer relating to prevention of child and forced labour.	5. Responsibility for Employees
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	5.1 Protection of Rights and Interests of Employees
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	5.1 Protection of Rights and Interests of Employees There was not any violation.
Aspect B5. Supply Chain Management		
General Disclosure B5	Policies on managing environmental and social risks of the supply chain.	4.1 Responsibility for Products
KPI B5.1	Number of suppliers by geographical region.	10. Key Quantitative Performance Table
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	4.1 Responsibility for Products

Aspect, General Disclosure and Key Performance Indicators		Report Chapters
Aspect B6. Products Responsibility		
General Disclosure B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, adversity, labelling and privacy matters relating to the products and services provided and methods of redress.	4. Responsibility for Products and Customers
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	4.1 Responsibility for Products 10. Key Quantitative Performance Table
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	4.2 Customer Service 10. Key Quantitative Performance Table
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	4.3 Technology Innovation
KPI B6.4	Description of quality assurance process and recall procedures.	4.1 Responsibility for Products
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	4.2 Customer Service

Aspect, General Disclosure and Key Performance Indicators		Report Chapters
Aspect B7. Anti-Corruption		
General Disclosure B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	3. Compliance and Risk Management
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	3.2 Compliance Management 10. Key Quantitative Performance Table
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	3.2 Compliance Management
Aspect B8. Community Investment		
General Disclosure B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	7. Responsibility for Community
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	7.1 Active Engagement in Social Public Services
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	7.1 Active Engagement in Social Public Services 10. Key Quantitative Performance Table

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position as well as the outlook of the Company's business are provided in the "Chairman's Statement" and "Management Discussion & Analysis" on pages 4 to 5 and pages 6 to 13 of this annual report. Description of the principal risks and uncertainties facing the Company can be found throughout this annual report particularly in the section of "Management Discussion & Analysis" on page 13 of this annual report. Environmental policies and performance, compliance with the relevant laws, rules and regulations as well as relationships with employees, customers and suppliers are provided in this report and "Environmental, Social and Governance Report" from pages 27 to 68 of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the accompanying financial statements on page 92.

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

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders of the Company (the "**Shareholders**") who are entitled to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from 11 June 2019 to 14 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 10 June 2019.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 187 to page 188.

REPORT OF THE DIRECTORS

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 27 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

INTEREST-BEARING BORROWINGS

Particulars of interest-bearing borrowings of the Group as at 31 December 2018 are set out in note 23 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in the share capital and reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2018 calculated under the Companies Laws of the Cayman Islands amounted to RMB806,078,000.

ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Xingye Investment Holdings Limited, a wholly-owned subsidiary of the Company (the "**Purchaser**"), Mobilefun Limited (the "**Vendor**") and Mr. Ren Hao, Mr. Tong Xin and Mr. Yang Jiong as the guarantors, entered into a sale and purchase agreement dated 21 June 2016 (the "**SPA**"), pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the entire issued share capital of Funnytime Limited ("**Funnytime**") at the initial consideration of HKD186,000,000.20 ("**Consideration**") subject to certain price adjustment mechanism. The Consideration shall be satisfied (i) as to HKD116,000,000 in cash; and (ii) as to HKD70,000,000.20 by issuance of 77,777,778 ordinary shares of HKD0.10 each ("**Consideration Shares**") to be issued and allotted by the Company pursuant to the general mandate granted by shareholders at the annual general meeting held on 27 May 2016. Pursuant to a letter dated 4 August 2016 from The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") addressed to the Company, the Stock Exchange granted, on conditional basis, the approval for the listing of and permission to deal in the Consideration Shares. According to the SPA, Funnytime shall achieve performance target of net profit (after adjustments for pre-agreed items as stipulated in the SPA) of RMB18,000,000, RMB22,000,000 and RMB30,000,000 for the years ended 31 December 2016, 31 December 2017 and 31 December 2018, respectively, and the total anticipated net profit shall be RMB70,000,000. Funnytime's adjusted net profit has fulfilled its performance targets for year 2016 and 2017, but did not achieve the performance target for year 2018. The total adjusted net profit for three years from year 2016 to year 2018 is RMB45,780,262, which is less than the total anticipated net profit of RMB70,000,000 by RMB24,219,738. In April 2017 and April 2018, 19,996,667 and 24,445,556 consideration shares were allotted and issued to the Vendor respectively.

According to the SPA, the Vendor is subject to consideration adjustments, and the remaining number of consideration shares issuable to the Vendor should be adjusted to 6,424,734 shares. The details of the consideration adjustments mechanism can be referred to the announcement of the Company dated 21 June 2016. As at the date of this report, the Company and the Vendor are still discussing the settlement plans for the consideration adjustments. The Company will issue further announcement(s) for any material development of the above as and where appropriate.

KEY RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregate revenue from sales of goods attributable to the five largest customers and the largest customer of the Group accounted for approximately 15.9% and 4.4% of the Group's aggregate revenue from sales of goods, while the aggregate purchases attributable to five largest suppliers and the largest supplier of the Group accounted for approximately 42.5% and 14.7% of the Group's aggregate purchases.

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

SHARE AWARD SCHEME

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

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

During the year ended 31 December 2018, no new shares had been subscribed by the Trustee and a total of 551,000 shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme and no share had been granted to Selected Employee(s) and no share had been vested under the Share Award Scheme. Accordingly, since the Adoption Date and up to 31 December 2018, there were 2,708,000 shares held in trust under the Share Award Scheme. As announced by the Company on 13 December 2018, the vesting dates of the awarded shares granted on 13 December 2017 in respect of tranches for 2018 and 2019 were postponed for one year to 13 December 2019 and 13 December 2020, respectively.

Movement of the Share Award Scheme are set out in note 27 to the financial statements.

Unless otherwise defined in this section, the capitalized terms used in this section shall have the same meanings as those defined in the announcements made by the Company on 18 April 2016, 5 May 2016 and 13 December 2018 relating to the Share Award Scheme.

SHARE OPTION SCHEME

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

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

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

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

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

As at the date of this report, a total of 81,111,595 shares of the Company (representing approximately 9.48% of the existing issued share of the Company) may be issued upon exercise of all options which may be granted under the Share Option Scheme.

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

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

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

Subject to early termination by the Company at general meeting or by the Board of Directors, the Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption, i.e. 27 May 2016. The remaining life of the Share Option Scheme is approximately 7 years.

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

DIRECTORS

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

Executive Directors

Mr. HU Changyuan *(Chairman)*
Mr. HU Minglie *(Chief Executive Officer)*
Mr. CHEN Jianhua *(resigned on 13 December 2018)*
Mr. REN Hao
Mr. ZHU Wenjun

Non-Executive Director

Mr. DAI Jianchun

Independent Non-Executive Directors

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

Pursuant to Articles 87(1) and 87(2) of the Company's Articles of Association, Mr. ZHU Wenjun, Mr. REN Hao and Ms. LU Hong shall retire from their office by rotation at the forthcoming annual general meeting and, being eligible, offered themselves for re-election.

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company, and the Stock Exchange pursuant to the Model Code were as follows:

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

Name of Directors	Capacity/Nature of Interest	Number of Shares held	Number of Underlying Shares held	Approximate percentage of shareholding *(Note 1)*
HU Changyuan	Founder of a discretionary trust/ other Interest	265,200,000 *(Note 2)*	–	31.00%
	Beneficial owner/personal Interest	300,000	200,000 *(Note 4)*	0.06%
HU Minglie	Beneficial owner/personal Interest	2,348,000	1,000,000 *(Note 4)*	0.39%
REN Hao	Interest of a controlled corporation/ corporate interest	44,442,223 *(Note 3)*	33,335,555 *(Note 3)*	9.09%
	Beneficial owner/personal Interest	300,000	200,000 *(Note 4)*	0.06%
CHAI Chaoming	Beneficial owner/personal Interest	234,000	100,000 *(Note 4)*	0.04%
LU Hong	Beneficial owner/personal Interest	300,000	100,000 *(Note 4)*	0.05%
ZHU Wenjun	Beneficial owner/personal interest	300,000	200,000 *(Note 4)*	0.06%
DAI Jianchun	Beneficial owner/personal interest	100,000	100,000 *(Note 4)*	0.02%
LOU Dong	Beneficial owner/personal interest	100,000	100,000 *(Note 4)*	0.02%

Notes:

1. The percentages are calculated based on the total issued shares of 855,558,173 as at 31 December 2018.

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

3. These 44,442,223 shares and 33,335,555 underlying shares are held by Mobilefun Limited ("**Mobilefun**") which in turn is 72% controlled by Mr. Ren Hao. Accordingly, Mr. Ren Hao is deemed to have interest in 44,442,223 shares and 33,335,555 underlying shares of the Company held by Mobilefun under the SFO. Details of these underlying shares held by Mobilefun are set out in the section hereinafter headed "Substantial Shareholders" in this report.

4. These underlying shares held by Directors are award shares granted to the Directors under the Share Award Scheme on 13 December 2017. The first tranch was vested on 13 December 2017, and the rest will be vested on 13 December 2019 and 13 December 2020 respectively. Details of the said grant and the extension of vesting dates are set out in the announcements of the Company on 13 December 2017 and 13 December 2018 respectively and the movement of award shares is set out in note 27 to the financial statements.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company held or was deemed to hold any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or were required to be recorded in the register required to be kept pursuant to section 352 of the SFO, or is otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following persons or corporations (other than the directors' interests disclosed in the section headed "Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debenture") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares	Number of Underlying Shares	Approximate percentage of shareholding *(Note 1)*
Luckie Strike Limited	Beneficial owner/Beneficial interest	110,000,000 (L)	–	12.86%
Come Fortune International Limited	Beneficial owner/Beneficial interest	155,200,000 (L)	–	18.14%
Dynamic Empire Holdings Limited *(Note 2)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.00%
Nomura Holdings Inc. (Note 2)	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.00%
Zedra Trust Company (Singapore) Limited *(Note 2)*	Trustee (other than a bare trustee)/Other Interest	265,200,000 (L)	–	31.00%
Zedra Malta Limited *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.00%
Zedra Holding SA *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.00%
Zedra SA *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.00%
YU Yuesu *(Note 4)*	Interest of spouse/Family interest	265,500,000 (L)	200,000 (L)	31.06%
bostone Group Limited *(Note 5)*	Beneficial owner/Beneficial interest	128,379,000 (L)	–	15.01%
Xie Shicai *(Note 5)*	Interest of a controlled corporation/Corporate interest	128,379,000 (L)	–	15.01%
Ma Jiafeng *(Note 5)*	Interest of a controlled corporation/Corporate interest	128,379,000 (L)	–	15.01%
Mobilefun Limited *(Note 6)*	Beneficial owner/Beneficial interest	44,442,223 (L)	33,335,555 (L)	9.09%

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

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

Notes:

1. The percentages are calculated based on the total issued shares of 855,558,173 as at 31 December 2018.

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

   The custodian of these 265,200,000 shares was Nomura Singapore Limited. Nomura Holdings Inc., through its 100% controlled corporations was interested in these shares which were deemed to be interested by Nomura Singapore Limited as custodian. Nomura Singapore Limited was indirectly wholly-owned by Nomura Holdings Inc.

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

4. Ms. YU Yuesu was deemed to be interested in these shares and underlying shares under the SFO by virtue of being the spouse of Mr. HU Changyuan. The underlying shares represent the awarded shares granted to Mr. Hu Changyuan under the Share Award Scheme.

5. bostone Group Limited is beneficially owned by Ms. Ma Jiafeng and Mr. Xie Shicai. Ms. Ma Jiafeng owns 65.67% of the entire issued capital of bostone Group Limited, and Mr. Xie Shicai owns the rest 34.33% equity. Both Ms. Ma Jiafeng and Mr. Xie Shicai are deemed to be interested in the Shares held by bostone Group Limited by virtue of the SFO. To the best knowledge of the Directors, Mr. Xie Shicai is the ultimate controlling shareholder of Ningbo Boway Alloy Material Company Limited, a listed company in Shanghai Stock Exchange (Stock Code: 601137.SH). Ms. Ma Jiafeng is the spouse of Mr. Xie Shicai. Ningbo Boway Alloy Materials Company Limited manufactures and sells high-performance, high-precision, non-ferrous alloy bars, wires and plate-strips, and is a direct competitor of the Group's copper processing business.

6. Pursuant to the sale and purchase agreement dated 21 June 2016 entered into between a subsidiary of the Company, Mobilefun Limited ("**Mobilefun**"), Mr. Ren Hao, an executive Director, and others in relation to the acquisition of entire share capital in Funnytime Limited (the "**Acquisition**") involving the issue of 77,777,778 consideration shares. The Acquisition had been completed on 5 August 2016 and the 77,777,778 potential shares which will be issuable to Mobilefun in accordance with the schedule set out in the announcement of the Company dated 21 June 2016 (the "**Schedule**"). Details of the Acquisition and the said consideration shares are set out in the announcements of the Company dated 21 June 2016 and 5 August 2016. 19,996,667 and 24,445,556 consideration shares were duly alloted and issued to Mobilefun on 18 April 2017 and 16 April 2018, respectively. The remaining 33,335,555 potential shares will be issuable to Mobilefun pursuant to the Schedule (subject to adjustment under the settlement plans for the consideration adjustments to be agreed by the Company and Mobilefun). The shares and underlying shares held by Mobilefun were also disclosed as the interest of Mr. Ren Hao in the section headed "Directors' and chief executive's interests in shares, underlying shares and debentures" above.

Save as disclosed herein, as at 31 December 2018, so far as the Directors are aware, there were no other person, other than the Directors and chief executive of the Company, who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

EQUITY-LINKED AGREEMENTS

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

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Continuing Connected Transactions

On 21 June 2016, Xingye Investment Holdings Limited, a wholly-owned subsidiary of the Company ("**Xingye**"), Mobilefun Limited (the "**Vendor**") and Mr. REN Hao, Mr. TONG Xin and Mr. YANG Jiong as the guarantors, entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") in relation to acquisition of the entire issued share capital of Funnytime Limited by Xingye which constituted a disclosable transaction of the Company (the "**Acquisition**"). Mr. TONG Xin was relieved in July 2018 from acting as one of the guarantors after his disposal of all his interest in the Vendor to Mr. REN Hao.

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

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

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

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

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

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

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

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

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

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

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

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

Other than the continuing connected transactions disclosed as above, details of the related party transactions of the Group are set out in note 30 to the financial statements. Those related party transactions constituted exempted connected transactions under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 551,000 shares of the Company at a total consideration of HK$551,000 (equivalent to RMB401,000) during the year.

REPORT OF THE DIRECTORS

STRUCTURED CONTRACTS

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

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

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

As a result of the Structured Contracts, the financial results of Funnytime Limited, Soul Dargon Limited, Hefei Yueyou and the PRC Operating Entities (collectively the "**Funnytime Group**") were consolidated by the Company for the period from the acquisition date to 31 December 2016. The revenue, net profit and total assets contributed by the Funnytime Group to the Group amounted to RMB16.6 million, RMB6.2 million and RMB26.5 million for the period from the acquisition date to 31 December 2016. For the year ended 31 December 2018, the revenue, net profit and total assets contributed by the Funnytime Group to the Group amounted to RMB36.9 million, RMB3.1 million and RMB69.1 million.

Reasons for using the Structured Contracts

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

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

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

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

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

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

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

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

For the year ended 31 December 2018, there was no material change in the Structured Contracts. As of the date of this annual report, there is no unwinding of any of the Structured Contracts.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions set out in the Corporate Governance Code in Appendix 14 of the Listing Rules during the year ended 31 December 2018. Details of the corporate governance practices of the Company are set out in the Corporate Governance Report in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company comprises two independent non-executive Directors, namely, Mr. CHAI Chaoming and Ms. LU Hong and one non-executive Director, namely, Mr. DAI Jianchun. The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2018 and has also discussed audit, risk management, internal control, continuing connected transactions and financial reporting matters including accounting practices and principles adopted by the Group.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by KPMG. A resolution for the re-appointment of KPMG as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Huan Yue Interactive Holdings Limited
HU Minglie
Chief Executive Officer and Executive Director

Hong Kong, 29 March 2019

BIOGRAPHICAL DETAILS OF THE DIRECTORS

EXECUTIVE DIRECTORS

Mr. HU Changyuan, aged 70, is an executive Director and Chairman of the Board of the Company since 13 September 2007. Mr. HU was recognized as a senior economist by the Municipal Personnel Bureau of Zhejiang Province (浙江省人事廳) in 1995. He is the founder of the Group. Mr. HU has more than 29 years of experience in the copper plates and strips industry. He was a committee member of the first council of the China Nonferrous Metals Industry Association (中國有色金屬工業協會) (the "**CNMFIA**"), a member of the People's Political and Consultation Commission of Cixi City (慈溪市政協) and was a representative to the People's Congress of Ningbo City (寧波市人大). Mr. HU was awarded the title of "Labor Model of Ningbo City" (寧波市勞動模範) by Ningbo People's Government (寧波市人民政府) in 1991. In 2005, Mr. HU served as a vice president of the Zhejiang Charity Federation (浙江省慈善總會). In 2005, Mr. HU was awarded Zhejiang Charitable Individual (浙江慈善個人獎) by the People's Government of Zhejiang. He was also awarded the title of outstanding Chinese Entrepreneur (中國優秀企業家) by the Chinese International Hua Shang Association (中國國際華商會) and International Hua Shang Magazine (國際《華商》雜誌社) in 2006. In 2007, he was awarded "Outstanding Contributions to Chinese Charities" (中華慈善事業突出貢獻獎) and the title of "China's Charity Figure" (中華慈善人物) by China Charity Federation (中華慈善總會). Mr. HU is the father of Mr. HU Minglie and a director of Luckie Strike Limited and Come Fortune International Limited, substantial shareholders within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. HU Minglie, aged 37, is an executive Director of the Company and Chief Executive Officer of the Group since 17 November 2014. He graduated from the University of Arizona with a master degree in Optical Science Engineering, and has received a MBA degree from UCLA Anderson School of Management. Mr. HU is the founding partner and chairman of Lighthouse Capital Management LLC (the "**Lighthouse Capital**"), an equity investment fund management company established in Mainland China. At the time when he established Lighthouse Capital, he had been the partner of Tianjin Raystone Taihe Fund Management LLP, another equity investment fund management company established in Mainland China, for more than four years. During his service in Lighthouse Capital, he was responsible for the structuring and management of two funds with assets under management of over RMB300 million. The funds invested in more than 20 growth oriented projects in China and overseas, which were mainly medical, equipment and mobile internet projects. Mr. HU has also actively participated in the charity activities in Mainland China and Hong Kong, and is the director of Cixi Xingye Xi Yang Hong Charitable Foundation and Si Ming Care for Aged and Children Charitable Foundation Limited. Mr. HU is the son of Mr. HU Changyuan.

Mr. REN Hao, aged 36, is an executive Director of the Company since 18 October 2016. He is a member of Nomination Committee of the Company and the head of the Company's gaming business. He was a director of Funnytime Limited which was acquired by the Group in August 2016. Before joining the Group, Mr. REN established a gaming company Hefei Zhangyue Network Technology Co., Ltd. ("**Hefei Zhangyue**") in November 2014, which was controlled by Funnytime Limited through contractual agreements, and he acted as the chief executive officer of Hefei Zhangyue. Between 2010 to 2014, he served as the general manager of the web game division of Shenzhen ZQ Game Co., Ltd. (深圳中青寶互動網絡股份有限公司), a gaming company listed on the Shenzhen Stock Exchange. During 2007 to 2010, Mr. REN set up his own web game companies and was involved in both game development and operation. Before that, Mr. REN worked as an editor at the Yunnan TV Station. Mr. REN holds a bachelor degree of Business Management from Yunnan University. He is a director of Mobilefun Limited, a substantial shareholder within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. ZHU Wenjun, aged 37, is an executive Director of the Company since 18 October 2016 and the Chief Financial Officer of the Company since April 2015. He is also a member of Remuneration Committee of the Company. Prior to joining the Group, he worked with Shanghai Guohe Capital, where he had led private equity investment deals in media, software, internet and financial services sectors. Mr. ZHU has over 13 years of experience of finance, investment and corporate management. He started his career with KPMG assurance services, and also worked at Deloitte Financial Advisory with its Corporate Restructuring Services. Mr. ZHU holds an M.B.A. degree from UCLA Anderson School of Management, and bachelor's degree in law from Shanghai University of International Business and Economics.

BIOGRAPHICAL DETAILS OF THE DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. DAI Jianchun, aged 42, is a non-executive Director since August 2015 and a member of Audit Committee and Nomination Committee of the Company since January 2015. He had been an independent non-executive Director and the chairman of Remuneration Committee of the Company from January to August 2015. He was re-designated as a non-executive Director and resigned from the chairman of Remuneration Committee in August 2015. He graduated from the School of Economics and Management at Tsinghua University, with the degree of Bachelor of Engineering in Management Information Systems in July 2000, where he also obtained a Master's Degree in Quantitive Economics in July 2002. Between August 2002 and July 2006, Mr. DAI worked as a portfolio manager in the capital markets department in the headquarters of China CITIC Bank. Mr. DAI then became a manager in Crédit Agricole Corporate and Investment Bank's Hong Kong office until January 2009. Mr. DAI is currently a founding partner of Ferry Venture Capital, a company that performs venture capital for entrepreneurial enterprises with an industry focus on the mobile internet, innovation of products and services through mobile internet (O2O) commerce.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAI Chaoming, aged 49. is an independent non-executive Director of the Company since May 2009. He is the chairman of Audit Committee and Nomination Committee of the Company. He graduated and obtained a Bachelor degree in economics from Shanghai University of Finance & Economics and a Master degree in business administration from Guanghua School of Management of Beijing University. Mr. CHAI is a partner of Raystone Capital Management, LLP, a fund which focuses on private equity investment in China. Mr. CHAI has extensive corporate management and investment experience. Mr. CHAI is an independent non-executive director of Tangshan Jidong Cement Company Limited (stock code: 000401.SZ), a company listed on the Shenzhen Stock Exchange Limited in China.

Dr. LOU Dong, aged 37, is an independent non-executive Director of the Company since August 2015. He is also the chairman of Remuneration Committee and a member of Nomination Committee of the Company. He graduated from Columbia University with a degree of Bachelors of Computer Science in 2004 and obtained a doctoral degree from Yale University in Financial Economics in 2009. Dr. LOU worked as an assistant professor in Finance at the London School of Economics and Political Science from 2009–2015, where he is currently an associate professor (tenured professor) in Finance. Dr. LOU is a researcher at the Centre for Economic Policy Research in the United Kingdom from 2013 to the present and an associate editor at Management Science and Journal of Empirical Finance from 2014 to the present.

Ms. LU Hong, aged 50, is an independent non-executive Director since May 2016. She is also a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company. Ms. LU has over 21 years of experience in accounting, financial management, company secretarial and domestic and overseas capital markets field. She is a member of the Chinese Institute of Certified Public Accountants, Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. LU has extensive knowledge and experience in accounting and is very familiar with listing rules and regulations both in Hong Kong and PRC. She has rich experience in the listing of corporations in the PRC, Hong Kong, Singapore and the United States of America, and foreign and domestic investment and financing operations as well as mergers and acquisitions. Ms. LU also specializes in financial analysis, budgeting, financial management and tax planning. Ms. LU has been an independent non-executive director of Sino Biopharmaceutical Limited (stock code: 1177), a company listed on the main board of The Stock Exchange of Hong Kong Limited.

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

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Huan Yue Interactive Holdings Limited ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 92 to 186, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

Revenue recognition

Refer to note 4(a) to the consolidated financial statements and the accounting policies in note 2(w).

The Key Audit Matter

Revenue from the sale of copper products is recognised when the goods are delivered to the customers' designated location for domestic sales or when the goods are loaded on shipping vessels for overseas sales, which is considered to be the point in time when the customer obtains control of the copper products.

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

How the matter was addressed in our audit

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

- assessing the design, implementation and operating effectiveness of the relevant key internal controls which govern revenue recognition from the sale of copper products;
- inspecting customer contracts on a sample basis and evaluating the Group's revenue recognition policies, including the timing of revenue recognition and the amount of revenue recognised, with reference to the requirements of the prevailing accounting standards;
- comparing revenue transactions recognised during the year, on a sample basis, with contracts and goods delivery notes with the customers' acknowledgement of receipt and acceptance of the goods or bills of lading and assessing whether revenue was recognised in accordance with the Group's revenue recognition policies;
- comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with sales contracts and goods delivery notes with the customers' acknowledgement of receipt and acceptance of the goods or bills of lading to determine whether the revenue had been recognised in the appropriate financial period;

KEY AUDIT MATTERS (Continued)

Revenue recognition (Continued)

Refer to note 4(a) to the consolidated financial statements and the accounting policies in note 2(w).

The Key Audit Matter (Continued)

We identified revenue recognition from the sale of copper products as a key audit matter because revenue is a key performance indicator of the Group which could create an incentive for manipulation of revenue to meet targets or expectations.

How the matter was addressed in our audit (Continued)

- recalculating, on a sample basis, sales rebates recognised during the year with reference to the terms contained in customers' sales contracts and the actual sales volumes for customers qualifying for rebates, comparing our calculations with those of the Group and assessing whether the sales rebates had been accurately recognised in the appropriate financial period;

- inspecting samples of credit invoices and returned goods delivery notes issued in December 2018 and January 2019 to evaluate whether associated adjustments to revenue had been accurately recorded in the appropriate accounting period; and

- inspecting manual adjustments to revenue made during the reporting period applying risk-based sampling techniques, enquiring of management as to the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

KEY AUDIT MATTERS (Continued)

Assessment of impairment of goodwill

Refer to note 16 to the consolidated financial statements and the accounting policies in note 2(m)(ii).

The Key Audit Matter	How the matter was addressed in our audit
For the purpose of impairment testing, goodwill in the consolidated statement of financial position which arose from the Group's acquisition of the online gaming business in 2016, is allocated to the cash-generating unit ("CGU") to which the online gaming business belongs. There is a risk that the carrying value of the goodwill balance may not be recovered from future cash flows to be generated from the online gaming business. An annual impairment assessment of goodwill is performed by management. Management assesses impairment of goodwill as at 31 December 2018 by preparing a discounted cash flow forecast for the CGU to which goodwill has been allocated and comparing the net present value of the forecast cash flows with the carrying value of the CGU's related net assets. An impairment loss of RMB109,864,000 was recognised during the year ended 31 December 2018 (2017:Nil). The preparation of a discounted cash flow forecast involves the exercise of significant management judgement, in particular in estimating future sales growth rates and the discount rate applied. We identified assessing impairment of goodwill relating to the online gaming business as a key audit matter because assessing impairment involves forecasting future cash flows which is complex and inherently uncertain and could be subject to management bias.	Our audit procedures to assess impairment of goodwill included the following: • assessing management's identification of the CGU and the allocation of assets and liabilities to the identified CGU with reference to the requirements of the prevailing accounting standards; • involving our internal valuation specialists to assist us in evaluating the methodology adopted by management in its impairment assessment with reference to the requirements of the prevailing accounting standards; • comparing the most significant inputs in the discounted cash flow forecast, including future revenue growth rate and gross profit margin, with the latest financial budgets approved by management, historical performance of the gaming business, management's forecasts, industry reports and recent market developments subsequent to the reporting date; • involving our internal valuation specialists to assist us in assessing the discount rate applied in the discounted cash flow forecast by benchmarking against the discount rates of similar companies; • performing sensitivity analyses of the key assumptions adopted in the discounted cash flow forecast, including the discount rate, future revenue growth rate and gross profit margin, and considering the resulting impact of changes in the key assumptions to the conclusion reached in the impairment assessment and whether there were any indicators of management bias; and • assessing the disclosures in the consolidated financial statements in respect of assessing impairment of goodwill with reference to the requirements of the prevailing accounting standards.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

KPMG
Certified Public Accountants

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

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

(Expressed in RMB)

	Note	2018 RMB'000	2017 (Note) RMB'000
Revenue	4(a)	**4,996,057**	4,495,001
Cost of sales		**(4,577,679)**	(3,970,567)
Gross profit		**418,378**	524,434
Other income	5	**39,520**	27,553
Distribution expenses		**(47,112)**	(52,128)
Administrative expenses		**(240,293)**	(205,349)
Other expenses	6	**(120,187)**	(80,345)
Profit from operations		**50,306**	214,165
Finance income		**61,696**	13,814
Finance costs		**(60,573)**	(50,032)
Net finance income/(costs)	7(a)	**1,123**	(36,218)
Profit before taxation		**51,429**	177,947
Income tax	8	**(22,651)**	(39,153)
Profit for the year		**28,778**	138,794
Attributable to:			
Equity shareholders of the Company		**27,529**	135,544
Non-controlling interests		**1,249**	3,250
Profit for the year		**28,778**	138,794
Earnings per share	12		
Basic (RMB)		**0.03**	0.16
Diluted (RMB)		**0.03**	0.16

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 100 to 186 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(d).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Expressed in RMB)

	Note	2018 RMB'000	2017 (Note) RMB'000
Profit for the year		**28,778**	138,794
Other comprehensive income for the year (after tax and reclassification adjustments)	*11*		
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas operations		**(3,138)**	2,692
Other comprehensive income for the year		**(3,138)**	2,692
Total comprehensive income for the year		**25,640**	141,486
Attributable to:			
Equity shareholders of the Company		**24,391**	138,236
Non-controlling interests		**1,249**	3,250
Total comprehensive income for the year		**25,640**	141,486

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 100 to 186 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Expressed in RMB)

	Note	2018 RMB'000	2017 (Note) RMB'000
Non-current assets			
Property, plant and equipment	13	917,315	978,621
Lease prepayments	14	11,991	13,351
Intangible assets	15	1,994	5,100
Goodwill	16	28,289	138,153
Deposits for acquisition of property, plant and equipment		9,778	4,823
Loans and receivables		–	3,037
Deferred tax assets	8(d)	28,016	34,286
		997,383	1,177,371
Current assets			
Inventories	17	670,327	654,182
Trade and other receivables	18	392,167	529,726
Derivative financial instruments	19	876	1,765
Restricted bank deposits	20	140,162	116,093
Bank deposits with maturity over three months		10,163	10,000
Cash and cash equivalents	21	175,950	166,319
		1,389,645	1,478,085
Current liabilities			
Trade and other payables	22	467,301	615,299
Interest-bearing borrowings	23	728,523	627,751
Derivative financial instruments	19	222	11,607
Income tax payable		21,926	48,319
		1,217,972	1,302,976
Net current assets		171,673	175,109
Total assets less current liabilities		1,169,056	1,352,480

The notes on pages 100 to 186 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Expressed in RMB)

	Note	2018 RMB'000	2017 (Note) RMB'000
Non-current liabilities			
Interest-bearing borrowings	23	45,500	231,000
Contingent consideration payable	22(iii)	–	23,704
Deferred income	24	43,693	49,760
Deferred tax liabilities	8(d)	5,499	8,775
		94,692	313,239
NET ASSETS		1,074,364	1,039,241
CAPITAL AND RESERVES			
Share capital	25(b)	77,417	75,458
Reserves		974,496	936,714
Total equity attributable to equity shareholders of the Company		1,051,913	1,012,172
Non-controlling interests		22,451	27,069
TOTAL EQUITY		1,074,364	1,039,241

Approved and authorised for issue by the board of directors on 29 March 2019.

Hu Minglie

Directors

Zhu Wenjun

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 100 to 186 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Expressed in RMB)

		Attributable to equity shareholders of the Company										
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	PRC statutory reserve *RMB'000*	Translation reserve *RMB'000*	Treasury shares held for Share Award Scheme *RMB'000*	Share-based compensation reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2017		73,687	295,251	259,726	60,931	(17,064)	(3,256)	–	188,856	858,131	27,759	885,890
Profit for the year		–	–	–	–	–	–	–	135,544	135,544	3,250	138,794
Other comprehensive income		–	–	–	–	2,692	–	–	–	2,692	–	2,692
Total comprehensive income		–	–	–	–	2,692	–	–	135,544	138,236	3,250	141,486
Profit appropriation to reserve		–	–	–	4,710	–	–	–	(4,710)	–	–	–
Dividend paid to a non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	–	(3,940)	(3,940)
Share Award Scheme:												
– Treasury shares held for Share Award Scheme	*27(c)*	–	–	–	–	–	(2,868)	–	–	(2,868)	–	(2,868)
– Value of employee services		–	–	–	–	–	–	4,326	–	4,326	–	4,326
– Shares vested from Share Award Scheme and transferred to the grantees	*27(c)*	–	–	–	–	–	307	(247)	(60)	–	–	–
New shares issued in connection with contingent consideration	*25(b)&(c)*	1,771	12,576	–	–	–	–	–	–	14,347	–	14,347
At 31 December 2017		75,458	307,827	259,726	65,641	(14,372)	(5,817)	4,079	319,630	1,012,172	27,069	1,039,241

The notes on pages 100 to 186 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Expressed in RMB)

		Attributable to equity shareholders of the Company										
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	PRC statutory reserve *RMB'000*	Translation reserve *RMB'000*	Treasury shares held for Share Award Scheme *RMB'000*	Share-based compensation reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 31 December 2017 *(note)*		75,458	307,827	259,726	65,641	(14,372)	(5,817)	4,079	319,630	1,012,172	27,069	1,039,241
Impact on initial application of IFRS 9	*2(c)*	–	–	–	–	–	–	–	(3,328)	(3,328)	(116)	(3,444)
Adjusted balance at 1 January 2018		75,458	307,827	259,726	65,641	(14,372)	(5,817)	4,079	316,302	1,008,844	26,953	1,035,797
Profit for the year		–	–	–	–	–	–	–	27,529	27,529	1,249	28,778
Other comprehensive income		–	–	–	–	(3,138)	–	–	–	(3,138)	–	(3,138)
Total comprehensive income		–	–	–	–	(3,138)	–	–	27,529	24,391	1,249	25,640
Profit appropriation to reserve		–	–	–	7,539	–	–	–	(7,539)	–	–	–
Dividend paid to a non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	–	(1,403)	(1,403)
Share Award Scheme:												
– Treasury shares held for Share Award Scheme	*27(c)*	–	–	–	–	–	(401)	–	–	(401)	–	(401)
– Value of employee services		–	–	–	–	–	–	2,433	–	2,433	–	2,433
– Shares vested from Share Award Scheme and transferred to the grantees	*27(c)*	–	–	–	–	–	4,054	(3,993)	(61)	–	–	–
New shares issued in connection with contingent consideration	*25(b)&(c)*	1,959	14,687	–	–	–	–	–	–	16,646	–	16,646
Disposal of interest in a subsidiary		–	–	–	(710)	–	–	–	710	–	(4,348)	(4,348)
At 31 December 2018		77,417	322,514	259,726	72,470	(17,510)	(2,164)	2,519	336,941	1,051,913	22,451	1,074,364

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 2(c).

The notes on pages 100 to 186 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Expressed in RMB)

	Note	2018 RMB'000	2017 (Note) RMB'000
Cash flows from operating activities			
Profit for the year		28,778	138,794
Adjustment for:			
Depreciation of property, plant and equipment		101,291	88,703
Amortisation of lease prepayments		339	359
Amortisation of intangible assets		3,106	3,456
Impairment losses on property, plant and equipment		–	38,802
Impairment losses on trade receivables		10,051	462
Impairment losses on goodwill		109,864	–
Losses on disposal of property, plant and equipment		1	21,887
Losses on disposal of intangible assets		–	204
Gains on disposal of property, plant and equipment		(40)	(50)
Net finance (income)/costs		(1,123)	36,218
Equity-settled share-based payment transactions		2,433	4,326
Unrealised fair value change on derivative financial instruments		(3,654)	(450)
Gain on disposal of interest in a subsidiary		(454)	–
Income tax expense		22,651	39,153
Amortisation of deferred income		(11,993)	(5,663)
		261,250	366,201
Changes in working capital:			
Inventories		(30,678)	(69,766)
Trade and other receivables		100,040	(88,199)
Trade and other payables		(148,486)	(186,704)
Cash generated from operations		182,126	21,532
Interest paid		(38,238)	(41,925)
Income tax paid		(43,886)	(29,576)
Net cash generated from/(used in) operating activities		100,002	(49,969)

The notes on pages 100 to 186 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018
(Expressed in RMB)

	Note	2018 RMB'000	2017 (Note) RMB'000
Cash flows from investing activities			
Interest received		3,462	2,007
Loans to a third party		–	(3,037)
Proceeds from disposal of property, plant and equipment		162	182
Changes in pledged deposits		(2,960)	(58,818)
Net proceeds from disposal of interest in a subsidiary		4,610	–
Acquisition of property, plant and equipment, net of deposits placed in previous years		(55,471)	(46,005)
Deposits for acquisition of property, plant and equipment		(7,295)	(3,799)
Acquisition of subsidiaries		–	(16,521)
Government grants received		6,385	3,188
Net cash used in investing activities		(51,107)	(122,803)
Cash flows from financing activities			
Repayment of interest-bearing borrowings	21(a)	(1,768,517)	(1,456,988)
Proceeds from interest-bearing borrowings	21(a)	1,726,294	1,639,838
Payment for settlement of interest rate swap contracts	21(a)	–	(51)
Payment for purchase of shares in connection with Share Award Scheme	27(c)	(401)	(2,868)
Dividends paid to non-controlling shareholders		(1,403)	(4,501)
Net cash (used in)/generated from financing activities		(44,027)	175,430
Net increase in cash and cash equivalents		4,868	2,658
Cash and cash equivalents at 1 January		166,319	168,942
Effect of movements in exchange rates on cash held		4,763	(5,281)
Cash and cash equivalents at 31 December		175,950	166,319

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 100 to 186 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Financial statements for the year ended 31 December 2018

(Prepared under International Financial Reporting Standards)

1 REPORTING ENTITY AND BACKGROUND INFORMATION

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

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "**Group**"). The principal activities of the Group are the manufacture and sales of high precision copper plates and strips, trading of raw materials, and provision of processing services. After the acquisition of an online games business in August 2016, the Group's activities also include developing, publishing and operating online games and provision of related services.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

- contingent consideration receivables;
- contingent consideration payables; and
- derivative financial instruments (see note 2(h))

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (Continued)

The following table summarises the impact of transition to IFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

Retained earnings	*RMB'000*
Recognition of additional expected credit losses on trade receivables	(4,417)
Related tax	1,089
Net decrease in retained earnings at 1 January 2018	(3,328)

Non-controlling interests	
Recognition of additional expected credit losses on trade receivables and decrease in non-controlling interests at 1 January 2018	(116)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categorises of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The adoption of IFRS 9 did not have material impact on the classification of the Group's financial assets and financial liabilities.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in notes 2(g), (h), (m)(i), (p) and (q).

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (Continued)

b. Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the expected credit loss ("**ECL**") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, bank deposits with maturity over three months, restricted bank deposits, trade and other receivables and loans and receivables).

The following table shows the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

	IAS 39 carrying amount at 31 December 2017	**Remeasurement**	**IFRS 9 carrying amount at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets carried at amortised cost			
Cash and cash equivalents	166,319	–	166,319
Bank deposits with maturity over three months	10,000	–	10,000
Restricted bank deposits	116,093	–	116,093
Trade and other receivables	482,791	(4,571)	478,220
Loans and receivables	3,037	–	3,037
	778,240	(4,571)	773,669
Financial assets carried at FVPL			
Derivative financial instruments	1,765	–	1,765

For further details on the Group's accounting policy for accounting for credit losses, see note 2(m)(i).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (Continued)

b. *Credit losses* (Continued)

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under IAS 39	462
Additional credit loss recognised at 1 January 2018 on trade receivables	4,571
Loss allowance at 1 January 2018 under IFRS 9	5,033

c. *Hedge accounting*

The Group has elected to adopt the new general hedge accounting model in IFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to IAS 39 to be applied, and the assessment is always forward-looking. The adoption of IFRS 9 has not had a significant impact on the Group's financial statements in this regard.

d. *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method. Therefore, comparative information has not been restated and continues to be reported under IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The adoption of IFRS 15 does not have any material impact on the financial position and the financial result of the Group except for the presentation of contract assets and contract liabilities.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 did not have a significant impact on timing of revenue recognition.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, Revenue from contracts with customers (Continued)

b. Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2(w)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

(i) "Advances received from customers" amounting to RMB21,303,000, is now included in "Contract liabilities", which is included under trade and other payables (note 22).

(ii) "Deferred income – Others" (note 24) amounting to RMB873,000, is now included in "Contract liabilities", which is included under trade and other payables (note 22).

As at 1 January 2018 and 31 December 2018, the Group's right to consideration for the goods and services transferred to the customers is unconditional (i.e. only the passage of time is required before the payments is due). Accordingly, the Group presents such right to consideration as receivables rather than contract assets.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, Revenue from contracts with customers (Continued)

c. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018.

The following table summarises the estimated impact of adoption of IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under IFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under IAS 18 if those superseded standards had continued to apply to 2018 instead of IFRS 15. The table shows only those line items impacted by the adoption of IFRS 15:

	Amounts reported in accordance with IFRS 15 (A) *RMB'000*	**Hypothetical amounts under IAS 18 (B)** *RMB'000*	**Difference: Estimated impact of adoption of IFRS15 on 2018 (A)-(B)** *RMB'000*
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of IFRS 15:			
Trade and other payables	(467,301)	(466,860)	(441)
Total current liabilities	(1,217,972)	(1,217,531)	(441)
Net current assets	171,673	172,114	(441)
Total assets less current liabilities	1,169,056	1,169,497	(441)
Deferred income	(43,693)	(44,134)	441
Total non-current liabilities	(94,692)	(95,133)	441
Net assets	1,074,364	1,074,364	–
Total equity attributable to equity shareholders of the Company	(1,051,913)	(1,051,913)	–
Total equity	(1,074,364)	(1,074,364)	–

The differences arise as a result of the changes in accounting policies described above.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(iii) IFRIC 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

(d) Functional and presentation currency

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

(e) Subsidiaries and non-controlling interests

(i) Business combination

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Goodwill

Goodwill represents the excess of:

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

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

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

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

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

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below:

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 28(d). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(w)(iv)).

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(A) Policy applicable from 1 January 2018 (Continued)

– fair value through profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss.

Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 2(m)(i) – policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 2(m)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Derivative financial instruments

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

(i) Property, plant and equipment

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

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

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

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

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

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

(j) Lease prepayments

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(y)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(m)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

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

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

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

Both the period and method of amortisation are reviewed annually.

(l) Leased assets

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following item:

– financial assets measured at amortised cost (including cash and cash equivalents, bank deposits with maturity over three months, restricted bank deposits, trade and other receivables and loans and receivables);

Financial assets measured at fair value, including derivative financial assets and contingent consideration receivables, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(w)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

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

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

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written-off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written-off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. cash and cash equivalent, bank deposits with maturity over three months, restricted bank deposits, trade and other receivables and loans and receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written-off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written-off directly were recognised in profit or loss.

(ii) Impairment of other assets

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

– property, plant and equipment;

– lease prepayments;

– intangible assets;

– goodwill; and

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

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

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

(iii) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see note 2(n)(i)), property, plant and equipment (see note 2(i)) or intangible assets (see note 2(k)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less from the initial recognition of the asset.

(o) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(w)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(p)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Trade and other receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(m)(i)).

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(m)(i).

(r) Trade and other payables

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

(s) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(y)).

(t) Employee benefits

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Employee benefits (Continued)

(ii) Share-based payments

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

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

During the vesting period, the number of shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of shares that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares.

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

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

Where there is any modification of terms and conditions that is not beneficial to the employee, e.g. by increasing the vesting period, then this modification is ignored, i.e. the grant-date fair value of the equity instruments granted is recognised over the original vesting period.

(iii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Income tax

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Income tax (Continued)

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

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

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

  – the same taxable entity; or

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

(v) Provisions and contingent liabilities

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

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

(w) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue and other income (Continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of copper products

Customers obtain control of copper products when the goods are delivered to the customers' designated location for domestic sales or when the goods are loaded on shipping vessels for overseas sales. Invoices are usually settled within 90 days from billing date. No discounts are provided for copper products, but sales rebates may be provided to certain customers based on the volume of product purchased over a defined period. Customer rebates are estimated and recorded as a reduction to revenue.

If the copper products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

Revenue is recognised when the customer has the ability to direct the use of the copper products or services and obtain substantially all of the remaining benefits of the copper products or services. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

In the comparative period, under IAS 18, revenue was recognised when the goods are delivered to the customers' designated location for domestic sales or when the goods are loaded on shipping vessels for overseas sales, which is considered to be the point in time when the Group transfers the significant risks and rewards associated with ownership of goods to the customers. Revenue was recognised at that point provided that the revenue and costs could be measured reliably, the recovery of the consideration was probable and there was no continuing managerial involvement with the goods or services.

(ii) Publishing and operating online games

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

Revenue from publishing and operating online games is recognised over time as the customer simultaneously receives and consumes the benefits of the services. The Group views its performance obligations as a series of distinct goods or services that are substantially the same and that have the same pattern of transfer. The Group allocates variable consideration to the distinct good or service within the series, such that revenue from publishing and operating online games is recognized in each period as the uncertainty with respect to such variable consideration is resolved.

Revenue for publishing and operating online games was recognised on a similar basis in the comparative period under IAS 18.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue and other income (Continued)

(iii) Services income

Revenue for the provision of technical services is recognised at the point in time when services have been rendered.

Revenue for service income was recognised on a similar basis in the comparative period under IAS 18.

(iv) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

(v) Government grants

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

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

(x) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction date. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Borrowing costs

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

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

(z) Dividends

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

(aa) Related parties

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

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

(b) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Related parties (Continued)

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

(bb) Segment reporting

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

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

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

- Notes 27(b)&(c) – Consolidation: whether the Group has control over entities through contractual arrangements and trusts.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Loss allowance for trade receivables

The Group estimates the loss allowances for trade receivables by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the previous estimate, such difference will affect the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of trade receivables during their expected lives.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(b) Sources of estimation uncertainty (Continued)

(ii) Depreciation and amortisation

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

After conducting a review on the useful lives of the property, plant and equipment of the Group, in order to more accurately reflect the useful lives of the property, plant and equipment and to ensure that the property, plant and equipment and their related depreciation expenses more appropriately reflect the Group's actual usage conditions, the Group resolved to change the accounting estimates of the useful lives of certain copper processing equipment from 15 years to 10 years.

Since the massive investment on equipment expenditures from 2012, the Group has devoted to increase its copper processing production capacity. To increase production capacity and assure product quality, the Group has purchased state-of-the-art equipment and machinery, which have a high degree of automation. In addition, the cycle to upgrade the copper processing equipment has shortened due to key technical parameters is changing in a faster pace in the copper processing industry. Therefore, it is expected that the current expected useful lives of the above property, plant and equipment is different from the useful lives originally estimated for such class of equipment.

These changes in estimated useful lives of these equipment were accounted for as changes in accounting estimates effective since 1 April 2018. The impact of these changes for the nine months period ended 31 December 2018 was an increase in depreciation expense of RMB18.2 million.

(iii) Net realisable value of inventories

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

(iv) Impairment of non-current assets

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(b) Sources of estimation uncertainty (Continued)

(iv) Impairment of non-current assets (Continued)

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

(v) Income tax

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

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Further details regarding the Group's principal activities are disclosed in note 4(b).

4 REVENUE AND SEGMENT REPORTING (Continued)

(a) Revenue (Continued)

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018 *RMB'000*	2017 *RMB'000* *(Note)*
Revenue from contracts with customers within the scope of IFRS15		
Disaggregated by major products or service lines		
Copper products related:		
– Sales of high precision copper plates and strips	4,448,029	4,004,431
– Processing service fees	194,857	203,616
– Trading of raw materials	316,232	245,089
	4,959,118	4,453,136
Online games related:		
– Technical service income	–	12,572
– Publishing and operating online games	35,548	28,015
– Others	1,391	1,278
	36,939	41,865
	4,996,057	4,495,001

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 (see note 2(c)(ii)).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets are disclosed in notes 4(b)(i) and 4(b)(iv), respectively.

The Group's customer base is diversified and no single customer contributed over 10% of the total revenue of the Group during the years ended 31 December 2018 and 2017.

4 REVENUE AND SEGMENT REPORTING (Continued)

(a) Revenue (Continued)

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to all its sales contracts such that the Group needs not disclose the information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under all sales contracts that had an original expected duration of one year or less.

(b) Segment reporting

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

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

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

(i) Segment results, assets and liabilities

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

Segment assets include all assets, with the exception of unallocated corporate assets. Segment liabilities include all liabilities, with the exception of unallocated corporate liabilities.

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 are set out below.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Copper products		Online games		Total	
	2018	2017	**2018**	2017	**2018**	2017
		(Note)		*(Note)*		*(Note)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Disaggregated by timing of revenue recognition						
Point in time	**4,959,118**	4,453,136	**–**	7,817	**4,959,118**	4,460,953
Overtime	**–**	–	**36,939**	34,048	**36,939**	34,048
Revenue from external customers	**4,959,118**	4,453,136	**36,939**	41,865	**4,996,057**	4,495,001
Inter-segment revenue	**507**	520	**–**	–	**507**	520
Reportable segment revenue	**4,959,625**	4,453,656	**36,939**	41,865	**4,996,564**	4,495,521
Reportable segment profit/(loss) (profit/(loss) before taxation)	**108,856**	152,531	**(106,738)**	22,527	**2,118**	175,058
Interest income from bank deposits	**3,922**	1,635	**382**	52	**4,304**	1,687
Net interest expense	**(36,947)**	(40,334)	**(11)**	–	**(36,958)**	(40,334)
Depreciation and amortisation	**(101,532)**	(88,988)	**(3,204)**	(3,530)	**(104,736)**	(92,518)
Impairment losses of						
– plant and machinery	**–**	(38,802)	**–**	–	**–**	(38,802)
– goodwill	**–**	–	**(109,864)**	–	**(109,864)**	–
Reportable segment assets	**2,258,114**	2,451,499	**99,555**	204,137	**2,357,669**	2,655,636
Additions to non-current segment assets during the year	**48,984**	29,246	**205**	28	**49,189**	29,274
Reportable segment liabilities	**1,284,391**	1,554,249	**24,634**	20,492	**1,309,025**	1,574,741

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 (see note 2(c)(ii)).

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	2018 RMB'000	2017 RMB'000
Revenue		
Reportable segment revenue	4,996,564	4,495,521
Elimination of inter-segment revenue	(507)	(520)
Consolidated revenue *(note 4(a))*	4,996,057	4,495,001

	2018 RMB'000	2017 RMB'000
Profit before taxation		
Reportable segment profit	2,118	175,058
Change in fair values of contingent consideration receivables and contingent consideration payables	49,311	2,889
Consolidated profit before taxation	51,429	177,947

(iii) Reconciliations of reportable segment assets and liabilities

	2018 RMB'000	2017 RMB'000
Assets		
Reportable segment assets	2,357,669	2,655,636
Elimination of inter-segment receivables	(189)	(180)
Unallocated corporate assets	29,548	–
Consolidated total assets	2,387,028	2,655,456

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	2018 *RMB'000*	2017 *RMB'000*
Liabilities		
Reportable segment liabilities	1,309,025	1,574,741
Elimination of inter-segment payables	(189)	(180)
Unallocated corporate liabilities	3,828	41,654
Consolidated total liabilities	1,312,664	1,616,215

(iv) Geographic information

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

	2018 *RMB'000*	2017 *RMB'000*
Revenue		
Mainland China	4,025,135	3,788,254
Hong Kong	262,936	164,254
Singapore	188,908	186,259
Taiwan	127,347	75,615
Thailand	96,474	48,678
India	77,737	78,324
Bangladesh	77,212	59,857
Other countries	140,308	93,760
	4,996,057	4,495,001

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

5 OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Government grants	**20,656**	24,904
Gain on disposal of interest in a subsidiary	**454**	–
Gain on derivate financial instruments	**16,005**	–
Gain on disposal of property, plant and equipment	**40**	50
Others	**2,365**	2,599
	39,520	27,553

Government grants represent unconditional government grants of RMB8,663,000 (2017: RMB20,315,000) awarded to the Group as a recognition of the Group's contribution to the development of the local economy, and the amortisation of deferred government grants of RMB11,993,000 during the year ended 31 December 2018 (2017: RMB4,589,000) (note 24).

6 OTHER EXPENSES

	2018	2017
	RMB'000	*RMB'000*
Impairment losses on goodwill *(note 16)*	**109,864**	–
Impairment losses on property, plant and equipment *(note 13)*	**–**	38,802
Impairment losses on trade receivables *(note 28(a))*	**10,051**	462
Loss on disposal of property, plant and equipment	**1**	21,887
Loss on derivate financial instruments	**–**	17,167
Loss on disposal of intangible assets	**–**	204
Others	**271**	1,823
	120,187	80,345

7 PROFIT BEFORE TAXATION

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

(a) Net finance income/(costs)

	2018	2017
	RMB'000	*RMB'000*
Interest income on bank deposits	**4,304**	1,687
Change in fair values of contingent consideration receivables and contingent consideration payables *(note 22(iii))*	**49,311**	2,889
Net foreign exchange gain	**–**	9,238
Gains from foreign exchange forward contracts	**8,081**	–
Finance income	**61,696**	13,814
Interest expenses	**(38,267)**	(42,335)
Less: interest expenses capitalised*	**1,309**	2,001
Net interest expense recognised in profit or loss	**(36,958)**	(40,334)
Net foreign exchange loss	**(23,615)**	–
Losses from foreign exchange forward contracts	**–**	(9,698)
Finance costs	**(60,573)**	(50,032)
Net finance income/(costs)	**1,123**	(36,218)

* The borrowing costs were capitalised at rates of 2.15% ~ 5.15% per annum in 2018 (2017: 1.28% ~ 5.73% per annum).

(b) Personnel costs

	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**142,328**	127,222
Contributions to defined contribution plan	**6,818**	6,174
	149,146	133,396

7 PROFIT BEFORE TAXATION (Continued)

(b) Personnel costs (Continued)

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

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

(c) Other items

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories*	**4,564,494**	3,963,051
Depreciation *(note 13)*	**101,291**	88,703
Amortisation		
– Lease prepayments *(note 14)*	**339**	359
– Intangible assets *(note 15)*	**3,106**	3,456
Impairment loss on		
– property, plant and equipment	**–**	38,802
– goodwill	**109,864**	–
Research and development expenditure		
(included in administrative expenses)	**134,932**	112,218
Operating lease charges	**1,596**	1,125
Auditor's remuneration-audit services	**2,480**	2,250

* Cost of inventories includes RMB116,007,000 (2017: RMB110,261,000) relating to staff costs and depreciation expenses whose amounts are also included in the respective total amounts disclosed separately above or in notes 7(b) and 7(c) for each type of expense.

8 INCOME TAXES

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

	2018 *RMB'000*	2017 *RMB'000*
Current tax		
Provision for the year	25,186	52,758
Over-provision in respect of prior year	(8,965)	(367)
	16,221	52,391
Deferred tax		
Origination and reversal of temporary differences	6,621	(7,401)
PRC withholding tax	(191)	(5,837)
	22,651	39,153

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

(ii) The applicable profits tax rate of the Group's subsidiaries incorporated in Hong Kong was 16.5% (2017: 16.5%).

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

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

(iv) The PRC Corporate Income Tax Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or arrangement, for dividend distributions out of the PRC from earnings accumulated from 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. As at 31 December 2018, a preferential withholding tax rate of 5% is applied, since Xingye Copper International (HK) Limited ("**Xingye Copper (HK)**"), the parent company of the Group's PRC subsidiaries, became entitled to the preferential withholding tax rate of 5%, having been certified as the tax resident of the Hong Kong Special Administrative Region under the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income". As a result, deferred tax liabilities of RMB5,000,000 (2017: RMB7,500,000) were recognised in connection with withholding tax that would be payable on the distribution of retained profits of the Group's PRC subsidiaries as at 31 December 2018.

8 INCOME TAXES (Continued)

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

	2018 *RMB'000*	2017 *RMB'000*
Profit before taxation	**51,429**	177,947
Notional tax on profit before taxation, calculated at the applicable rates in the tax jurisdictions concerned	**29,256**	46,465
Tax effect of unused tax losses and other temporary differences not recognised as deferred tax assets	**3,151**	1,573
Tax effect of utilisation of tax losses not recognised in prior years	**–**	(1,400)
Withholding tax on profits retained by PRC subsidiaries	**(191)**	(5,837)
Effect of tax concessions	**(1,033)**	(1,984)
Over-provision in prior year	**(8,965)**	(367)
Tax effect of non-deductible expenses	**433**	703
Actual tax expense	**22,651**	39,153

8 INCOME TAXES (Continued)

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

	Accelerated depreciation and impairment of property, plant and equipment RMB'000	Credit loss allowance (Note) RMB'000	Inventory provision RMB'000	Change in fair value of derivative financial instruments RMB'000	Deferred income RMB'000	Withholding tax on dividends RMB'000	Intangible assets RMB'000	Unrealised profits arising from intra-group transactions and others RMB'000	Total RMB'000
At 1 January 2017	23,069	–	639	161	2,085	(15,000)	(2,190)	1,846	10,610
Reclassified to current tax payable upon distribution of dividends	–	–	–	–	–	1,663	–	–	1,663
Credited/(charged) to profit or loss	(732)	116	655	2,300	490	5,837	915	3,657	13,238
At 31 December 2017	22,337	116	1,294	2,461	2,575	(7,500)	(1,275)	5,503	25,511
Impact on initial application of IFRS 9	–	1,127	–	–	–	–	–	–	1,127
At 1 January 2018	22,337	1,243	1,294	2,461	2,575	(7,500)	(1,275)	5,503	26,638
Reclassified to current tax payable upon distribution of dividends	–	–	–	–	–	2,309	–	–	2,309
Credited/(charged) to profit or loss	(4,635)	189	615	(2,625)	1,222	191	776	(2,163)	(6,430)
At 31 December 2018	17,702	1,432	1,909	(164)	3,797	(5,000)	(499)	3,340	22,517

Note: Upon the initial application of IFRS 9, the Group has recognised deferred tax assets on the additional credit losses recognised under the ECL model (see note 2(c)(i)).

8 INCOME TAXES (Continued)

(d) Reconciliation to consolidated statement of financial position

	2018	2017
	RMB'000	*RMB'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**28,016**	34,286
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(5,499)**	(8,775)
	22,517	25,511

(e) Unrecognised deferred tax assets and liabilities

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

	2018	2017
	RMB'000	*RMB'000*
Tax losses of subsidiaries (i)	**19,333**	27,319
Retained earnings of PRC subsidiaries not expected to be distributed outside of the PRC in the foreseeable future (ii)	**(293,994)**	(202,561)

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

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

9 DIRECTORS' REMUNERATION

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

	Year ended 31 December 2018					
Name of directors	Director' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonus	Equity-settled share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr. Hu Changyuan	–	702	–	–	105	807
Mr. Chen Jianhua (resigned on 13 December 2018)	–	707	5	–	105	817
Mr. Hu Minglie	–	1,207	7	–	523	1,737
Mr. Zhu Wenjun	–	1,009	7	–	105	1,121
Mr. Ren Hao	–	521	27	–	105	653
Non-executive directors						
Mr.Dai Jianchun	405	–	–	–	52	457
Independent non-executive directors						
Mr. Chai Chaoming	102	–	–	–	52	154
Mr. Lou Dong	102	–	–	–	52	154
Ms. Lu Hong	102	–	–	–	52	154
	711	4,146	46	–	1,151	6,054

9 DIRECTORS' REMUNERATION (Continued)

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

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

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments during the year, all (2017: 5) are Directors whose emoluments are disclosed in note 9.

11 OTHER COMPREHENSIVE INCOME

Tax effect relating to each component of other comprehensive income

	2018			2017		
	Before-tax	**Tax (expense)/ benefit amount**	**Net-of-tax amount**	Before-tax	Tax (expense)/ benefit amount	Net-of-tax amount
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Exchange difference on translation of financial statements of overseas subsidiaries	**(3,138)**	**–**	**(3,138)**	2,692	–	2,692
Other comprehensive income	**(3,138)**	**–**	**(3,138)**	2,692	–	2,692

12 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB27,529,000 (2017: RMB135,544,000) and the weighted average number of 852,912,033 ordinary shares (2017: 825,455,631) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018	2017
Ordinary shares in issue at 1 January	**828,655,617**	807,094,950
Effect of shares purchased/vested under share award scheme *(note 27(c))*	**(189,140)**	(1,635,986)
Effect of new shares issued *(note 25(b))*	**17,346,299**	14,079,845
Effect of ordinary shares issuable in connection with the contingent consideration payable relating to an acquisition	**7,099,257**	5,916,822
Weighted average number of ordinary shares in issue at 31 December	**852,912,033**	825,455,631

12 BASIC AND DILUTED EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

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

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB27,529,000 (2017: RMB135,544,000) and the weighted average number of ordinary shares outstanding after adjustment of all dilutive potential ordinary shares amounting to 856,735,616 ordinary shares (2017: 850,100,291), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2018	2017
Weighted average number of ordinary shares at 31 December (basic)	**852,912,033**	825,455,631
Effect of share award scheme *(note 27(c))*	**3,823,583**	199,104
Effect of contingently issuable ordinary shares	**–**	24,445,556
Weighted average number of ordinary shares at 31 December (diluted)	**856,735,616**	850,100,291

13 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery RMB'000	Electronic and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2017	245,013	1,406,275	22,212	9,465	64,575	1,747,540
Additions	811	3,814	4,851	1,800	17,998	29,274
Transfer from construction in progress	1,737	13,322	–	–	(15,059)	–
Disposals	–	(51,614)	(3,903)	(1,030)	–	(56,547)
At 31 December 2017	247,561	1,371,797	23,160	10,235	67,514	1,720,267
Additions	126	1,149	957	464	46,493	49,189
Transfer from construction in progress	2,279	50,608	–	–	(52,887)	–
Disposal of a subsidiary	(9,999)	(1,498)	(530)	(578)	–	(12,605)
Disposals	–	–	(371)	(258)	–	(629)
At 31 December 2018	239,967	1,422,056	23,216	9,863	61,120	1,756,222
Accumulated depreciation and impairment losses						
At 1 January 2017	(62,528)	(573,065)	(8,957)	(4,250)	–	(648,800)
Charge for the year	(8,611)	(75,291)	(3,721)	(1,080)	–	(88,703)
Impairment losses	(2,639)	–	–	–	(36,163)	(38,802)
Disposals	–	33,642	438	579	–	34,659
At 31 December 2017	(73,778)	(614,714)	(12,240)	(4,751)	(36,163)	(741,646)
Charge for the year	(8,236)	(89,107)	(2,751)	(1,197)	–	(101,291)
Impairment losses	–	(36,163)	–	–	36,163	–
Disposal of a subsidiary	2,126	823	341	489	–	3,779
Disposals	–	–	116	135	–	251
At 31 December 2018	(79,888)	(739,161)	(14,534)	(5,324)	–	(838,907)
Net book value						
At 31 December 2018	160,079	682,895	8,682	4,539	61,120	917,315
At 31 December 2017	173,783	757,083	10,920	5,484	31,351	978,621

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

(ii) Certain property, plant and equipment with aggregate carrying amount of RMB537,920,000 (2017: RMB611,444,000) were pledged as security for bank loans at 31 December 2018 (see note 23(iii)).

(iii) As at 31 December 2018, the Group was in the process of applying for the title certificates for certain of its properties with an aggregate carrying value of RMB17,179,000 (2017: RMB18,122,000). The Directors of the Company are of the opinion that the Group is entitled to lawfully occupy and use the above mentioned properties.

Impairment losses

No impairment loss was recognised for the year ended 31 December 2018. For the year ended 31 December 2017, as a result of the impairment review, the carrying amounts of certain land and buildings and certain machinery exceeded their recoverable amounts. Accordingly, impairment losses of RMB2,639,000 and RMB36,163,000 were recognised, respectively.

14 LEASE PREPAYMENTS

	RMB'000
Cost	
At 1 January 2017	17,547
Disposals	(164)
At 31 December 2017	17,383
Disposal of a subsidiary	(1,197)
At 31 December 2018	16,186
Accumulated amortisation	
At 1 January 2017	(3,707)
Charge for the year	(359)
Disposals	34
At 31 December 2017	(4,032)
Charge for the year	(339)
Disposal of a subsidiary	176
At 31 December 2018	(4,195)
Net book value	
As at 31 December 2018	11,991
As at 31 December 2017	13,351

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

(ii) Certain land use rights with an aggregate carrying amount of RMB11,991,000 were pledged as security for bank loans at 31 December 2018 (2017: RMB13,351,000) (see note 23 (iii)).

15 INTANGIBLE ASSETS

	Exclusive rights for operation of online games *RMB'000*	**Product technology** *RMB'000*	**Non-compete agreement** *RMB'000*	**Total** *RMB'000*
Cost				
At 1 January 2017	6,800	700	2,700	10,200
Disposals	–	(700)	–	(700)
At 31 December 2017 and 31 December 2018	6,800	–	2,700	9,500
Accumulated amortisation:				
At 1 January 2017	(1,133)	(146)	(161)	(1,440)
Charge for the year	(2,720)	(350)	(386)	(3,456)
Disposals	–	496	–	496
At 31 December 2017 and 1 January 2018	(3,853)	–	(547)	(4,400)
Charge for the year	(2,720)	–	(386)	(3,106)
At 31 December 2018	(6,573)	–	(933)	(7,506)
Net book value:				
At 31 December 2018	227	–	1,767	1,994
At 31 December 2017	2,947	–	2,153	5,100

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

16 GOODWILL

	RMB'000
Cost:	
At 1 January 2017, 31 December 2017 and 31 December 2018	138,153
Accumulated impairment loss:	
At 1 January 2017 and 31 December 2017	–
Impairment loss	(109,864)
At 31 December 2018	(109,864)
Net book value:	
At 31 December 2018	28,289
At 31 December 2017	138,153

Impairment tests for cash-generating units containing goodwill

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

	2018	2017
	RMB'000	*RMB'000*
Online games	**28,289**	138,153

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

	2018	2017
	RMB'000	*RMB'000*
Pre-tax discount rate	**34.0%**	31.5%
Long-term revenue growth rate	**2.5%**	2.5%
Revenue growth rates over next five years	**(13.5%)-2.5%**	5% – 29%

16 GOODWILL (Continued)

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average revenue growth rate of 2.5% (2017: 2.5%). The growth rate used does not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a pre-tax discount rate of 34.0% (2017: 31.5%). The discount rate used reflects specific risks relating to the relevant business. The revenue growth rates are based on past performance and expectations of market developments.

Due to the impact of the relevant regulatory policies, the launch time of new games was behind schedule, resulting in a lower revenue growth rate of online gaming business than previously forecasted. As the business environment of the online gaming industry remains uncertain in the future, the estimated recoverable amount of the cash-generating unit was lower than its carrying amount, hence an impairment loss of RMB109,864,000 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2018 (2017: Nil).

17 INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**117,894**	85,617
Work in progress	**412,895**	373,846
Finished goods	**139,016**	194,197
Others	**522**	522
	670,327	654,182

Provisions of RMB8,157,000 (2017: RMB6,269,000) were made against those inventories with net realisable value lower than carrying value as at 31 December 2018. Except for the above, none of the inventories as at 31 December 2018 were carried at net realisable value (2017: Nil).

Certain inventories with aggregate carrying amount of RMB310,000,000 were pledged as security for bank loans at 31 December 2018 (2017: RMB255,670,000) (see note 23(iii)).

18 TRADE AND OTHER RECEIVABLES

	Note	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade and bills receivable, net of loss allowance	*(i)*	296,387	464,678	469,249
Deposits for metal future contracts		11,080	12,044	12,044
Other debtors		5,748	1,498	1,498
Financial assets measured at amortised cost		313,215	478,220	482,791
VAT recoverable		24,386	27,440	27,440
Prepayments		25,018	19,495	19,495
Contingent consideration receivables	*22(iii)*	29,548	–	–
		392,167	525,155	529,726

Note:

(i) Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables (see note 2(c)(i)).

All of the trade and other receivables (net of loss allowance) are expected to be recovered or recognised as expenses within one year.

As at 31 December 2018, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis, in the amount of RMB10,549,000 (2017: RMB10,176,000). In the opinion of the Directors, the Group has not transferred the substantial risks and rewards relating to these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated trade payables settled, and has recognised the cash received on the transfer as cash advances under discounted bills.

As at 31 December 2018, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the Directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2018, the Group's maximum exposure to loss and undiscounted cash outflow, which is the same as the amount payable by the Group to banks or suppliers in respect of discounted bills and endorsed bills should the issuing banks fail to settle the bills on maturity date, amounted to RMB23,216,000 (2017: RMB11,676,000).

18 TRADE AND OTHER RECEIVABLES (Continued)

Ageing analysis

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

	2018 *RMB'000*	2017 *RMB'000*
Within 3 months	278,726	444,176
Over 3 months but less than 6 months	16,641	24,981
Over 6 months but less than 1 year	959	7
Over 1 year	61	85
	296,387	469,249

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

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in the note 28(a).

As at 31 December 2018, the Group's bills receivables with aggregate carrying value of approximately RMB96,304,000 (2017: RMB161,815,000) were pledged to banks for issuance of bank acceptance bills.

19 DERIVATIVE FINANCIAL INSTRUMENTS

	Note	2018 *RMB'000*	2017 *RMB'000*
Derivative financial assets			
Metal future contracts	*(i)*	876	1,765
		876	1,765
Derivative financial liabilities			
Metal future contracts	*(i)*	(209)	(4,752)
Foreign exchange forward contracts	*(ii)*	(13)	(6,855)
		(222)	(11,607)

19 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(i) Metal future contracts

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

	2018	2017
Sales contracts		
Volume *(tonnes)*	575	3,250
Notional contract value *(RMB'000)*	24,793	160,844
Market value *(RMB'000)*	(23,917)	(165,596)
Fair value *(RMB'000)*	876	(4,752)
Purchase contracts		
Volume *(tonnes)*	525	550
Notional contract value *(RMB'000)*	(21,710)	(24,367)
Market value *(RMB'000)*	21,501	26,132
Fair value *(RMB'000)*	(209)	1,765
Total *(RMB'000)*	667	(2,987)
Contract maturity date	January, February and March 2019	January, February, March and April 2018

The market value of metal future contracts is based on quoted market prices at the reporting date. As at 31 December 2018, fair value of the outstanding commodity future contracts was RMB667,000 (2017: RMB2,987,000), and net realised and unrealised gain, in aggregate of RMB16,005,000 were recognised in other income (2017: other expenses of RMB17,167,000) for the year ended 31 December 2018.

(ii) Foreign exchange forward contracts

The Group purchased foreign exchange forward contracts to hedge its foreign currency exchange rate fluctuation. The market value of these contracts are based on quoted market prices at the reporting date. As at 31 December 2018, fair value of the outstanding foreign exchange forward contracts was RMB13,000 (2017: RMB6,855,000), and net realised and unrealised gain, in aggregate of RMB8,081,000 was recognised in finance income (2017: finance costs of RMB9,698,000) for the year ended 31 December 2018.

20 RESTRICTED BANK DEPOSITS

Restricted bank deposits represented:

	2018	2017
	RMB'000	*RMB'000*
Guarantee deposits for issuance of commercial bills	**78,371**	53,190
Guarantee deposits for bank borrowings	**61,778**	58,818
Guarantee deposits for forward exchange contracts	**–**	3,148
Others	**13**	937
	140,162	116,093

21 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

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

(a) Reconciliation of liabilities arising from financing activities

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

	Interest-bearing borrowings *RMB'000* *(Note 23)*
At 1 January 2018	858,751
Changes from financing cash flows:	
Proceeds from interest-bearing borrowings	1,726,294
Repayment of interest-bearing borrowings	(1,768,517)
Total changes from financing cash flows	(42,223)
Exchange adjustments	2,940
Other non-cash change:	
Derecognition of discounted bills	(45,445)
Total other non-cash change	(45,445)
At 31 December 2018	774,023

21 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Reconciliation of liabilities arising from financing activities (Continued)

	Interest-bearing borrowings *RMB'000* *(Note 23)*	Interest rate swap contracts held to hedge borrowings – liabilities *RMB'000*	Total *RMB'000*
At 1 January 2017	702,271	51	702,322
Changes from financing cash flows:			
Proceeds from new bank loans	1,639,838	–	1,639,838
Repayment of bank loans	(1,456,988)	–	(1,456,988)
Payment for settlement of interest rate swap contracts	–	(51)	(51)
Total changes from financing cash flows	182,850	(51)	182,799
Exchange adjustments	(6,370)	–	(6,370)
Other non-cash change:			
Derecognition of discounted bills	(20,000)	–	(20,000)
Total other non-cash change	(20,000)	–	(20,000)
At 31 December 2017	858,751	–	858,751

22 TRADE AND OTHER PAYABLES

	31 December 2018	1 January 2018	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payable *(ii)*	358,261	500,492	500,492
Staff benefits payable	28,668	24,588	24,588
Payables for purchase of property, plant and equipment	24,500	34,484	34,484
Accrued expenses and others	25,451	16,482	13,361
Financial liabilities measured at amortised cost	436,880	576,046	572,925
Advances received from customers *(i)*	–	–	24,424
Contract liabilities *(i)*	26,593	22,176	–
Contingent consideration payables *(iii)*	3,828	17,950	17,950
	467,301	616,172	615,299

(i) As a result of the adoption of IFRS 15, advances received from customers, net of value-added tax, are included in contract liabilities and disclosed above.

The Group receives payments from customers based on the billing schedule established in contracts. Payments are usually received in advance under the contracts, which are mainly from sales of copper products.

Revenue of RMB22,176 thousand was recognised for the year ended 31 December 2018 that was included in the contract liability balance at the beginning of the reporting period.

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**351,057**	457,527
Over 3 months but within 6 months	**3,461**	23,160
Over 6 months but within 1 year	**1,301**	16,854
Over 1 year	**2,442**	2,951
	358,261	500,492

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

22 TRADE AND OTHER PAYABLES (Continued)

(iii) On 5 August 2016 ("**the Acquisition Date**"), the Company obtained control of Funnytime Limited ("**Funnytime**") and its subsidiaries (collectively, the "**Target Group**") by acquiring 100% of the shares and voting interest in Funnytime from the vendor Mobilefun Limited ("**Mobilefun**"), a company with 42% equity interest held by Mr. Ren Hao at the Acquisition Date. Mr. Ren is also one of the guarantors in the Sale and Purchase Agreement (the "**SPA**") entered in relation to the acquisition of Funnytime. Mr. Ren then became one of the directors of the Company in October 2016. Mr. Ren's controlling interests in Mobilefun changed from 42% to 72% on 18 July 2018.

Contingent consideration is settled in the form of cash and newly issued ordinary shares of the Company depending on achievement of the Target Group's adjusted net profit for each performance year from 2016 to 2018. Pursuant to the SPA, in the event that the adjusted net profit of Funnytime for the period from 1 January 2016 to 31 December 2018 is less than RMB70,000,000 (as defined in the SPA), the vendor shall pay to the Company the adjustment amount (the "**Adjustment Amount**") of cash consideration of HKD40,135,567 and the Company shall issue to the vendor 6,424,734 shares in accordance with the price adjustment mechanism stipulated in the SPA.

The fair values of the contingent consideration receivables and contingent consideration payables as at 31 December 2018 were RMB29,548,000 and RMB3,828,000, respectively, with an aggregate fair value gain of approximately RMB49,311,000 recognised as finance income (note 7(a)) during the year ended 31 December 2018. The fair values are categorised as Level 3 measurement.

23 INTEREST-BEARING BORROWINGS

At 31 December 2018, interest-bearing borrowings were repayable based on scheduled repayment dates set out in the underlying loan agreements as follows:

	2018 *RMB'000*	2017 *RMB'000*
Current		
Short-term secured bank loans	437,360	469,893
Unsecured bank loans	48,986	112,413
Bank advances under discounted bills	111,177	45,445
Current portion of non-current secured bank loans	131,000	–
	728,523	627,751
Non-current		
Secured bank loans	45,500	231,000
	774,023	858,751

23 INTEREST-BEARING BORROWINGS (Continued)

(i) The Group's interest-bearing borrowings were repayable as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**728,523**	627,751
Over 1 year but less than 2 years	**45,500**	171,000
Over 2 years but less than 5 years	**–**	60,000
	45,500	231,000
	774,023	858,751

(ii) The Group's interest-bearing borrowings in the amount of RMB311,000,000 (2017: RMB420,500,000) are subject to the fulfilment of financial covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. As at and during the year ended 31 December 2018, none of these covenants related to drawn down facilities were breached.

(iii) The secured bank loans as at 31 December 2018 bore interest at rates ranging from 2.81% to 4.99% (2017: 2.15% to 7.5%) per annum and were pledged by the following assets:

	2018	2017
	RMB'000	*RMB'000*
Carrying amounts of assets:		
Inventories	**310,000**	255,670
Property, plant and equipment	**537,920**	611,444
Lease prepayments	**11,991**	13,351
Guarantee deposits for bank borrowings	**61,778**	58,818
	921,689	939,283

(iv) Unsecured bank loans as at 31 December 2018 bore interest at rates ranging from 3.59% to 3.65% (2017: 2.21% to 4.35%) per annum.

24 DEFERRED INCOME

	31 December 2018	1 January 2018	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Government grants	43,693	48,887	48,887
Others	–	–	873
	43,693	48,887	49,760

Note: As a result of the adoption of IFRS 15, "Deferred income-Others" is included in "Trade and other payable-Contract liabilities" and disclosed in note 22.

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

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company

	Note	Share capital	Share premium	Translation reserve	Contributed surplus	Share-based compensation reserve	Retained earnings	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017		73,687	295,251	6,477	407,248	–	82,111	864,774
Changes in equity for 2017:								
New shares issued in connection with contingent consideration	*25(b)&(c)*	1,771	12,576	–	–	–	–	14,347
Loss for the year		–	–	–	–	–	(3,841)	(3,841)
Other comprehensive income		–	–	(29,349)	–	–	–	(29,349)
Share Award Scheme:								
– Value of employee services		–	–	–	–	4,326	–	4,326
– Vested shares transferred to the grantees	*27(c)*	–	–	–	–	(247)	(60)	(307)
Total comprehensive income		1,771	12,576	(29,349)	–	4,079	(3,901)	(14,824)
At 31 December 2017		75,458	307,827	(22,872)	407,248	4,079	78,210	849,950

25 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(a) Movements in components of equity (Continued)

The Company (Continued)

	Note	Share capital RMB'000	Share premium RMB'000	Translation reserve RMB'000	Contributed surplus RMB'000	Share-based compensation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2018		75,458	307,827	(22,872)	407,248	4,079	78,210	849,950
Changes in equity for 2018:								
New shares issued in connection with contingent consideration	25(b)&(c)	1,959	14,687	–	–	–	–	16,646
Loss for the year		–	–	–	–	–	(4,352)	(4,352)
Other comprehensive income		–	–	19,656	–	–	–	19,656
Share Award Scheme:								
– Value of employee services		–	–	–	–	2,433	–	2,433
– Vested shares transferred to the grantees	27(c)	–	–	–	–	(3,993)	(61)	(4,054)
Total comprehensive income		1,959	14,687	19,656	–	(1,560)	(4,413)	30,329
At 31 December 2018		77,417	322,514	(3,216)	407,248	2,519	73,797	880,279

(b) Share capital

Authorised

	2018 Number of shares	2018 Amount HKD'000	2017 Number of shares	2017 Amount HKD'000
Ordinary shares of HKD0.1 each	5,000,000,000	500,000	5,000,000,000	500,000

25 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital (Continued)

Ordinary shares issued and fully paid

	2018			2017		
	Number of shares *'000*	Amount *HKD'000*	Equivalent *RMB'000*	Number of shares *'000*	Amount *HKD'000*	Equivalent *RMB'000*
At 1 January	831,113	83,111	75,458	811,116	81,111	73,687
New shares issued in connection with contingent consideration for acquisition	24,446	2,445	1,959	19,997	2,000	1,771
At 31 December	855,559	85,556	77,417	831,113	83,111	75,458

(i) On 16 April 2018, 24,445,556 ordinary shares of HKD0.10 par value each were duly issued to Mobilefun Limited pursuant to a sales and purchase agreement dated 21 June 2016, with fair value of HKD0.85 per share, as settlement of the contingent consideration payable for the performance year of 2017 (see note 22(iii)). An amount of HKD2,445,000 (equivalent to RMB1,959,000) representing the par value of the shares, were credited to the Company's share capital. The excess amount of HKD18,334,000 (equivalent to RMB14,687,000) over the par value of ordinary shares issued were credited to share premium.

(c) Reserves

(i) Share premium

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

(ii) Contributed surplus

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

(iii) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB806,078,000 (2017: RMB797,364,000).

25 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Reserves (Continued)

(iv) Capital reserve

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

(v) PRC statutory reserves

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

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

(vi) Share-based compensation reserve

Share-based compensation reserve represents the value of employee services in respect of awarded shares under the Share Award Scheme as set out in note 27(c).

(vii) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

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

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

25 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Reserves (Continued)

(vii) Capital management (Continued)

The Group's gearing ratio at 31 December 2018 and 2017 was as follows:

	2018	2017
	RMB'000	*RMB'000*
Gearing ratio	**36.25%**	40.62%

(d) Dividends

No final dividend was declared to equity shareholders of the Company for the year ended 31 December 2018 (2017: Nil).

26 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018	2017
	RMB'000	*RMB'000*
Non-current assets		
Investments in subsidiaries	**448,851**	430,501
Amounts due from subsidiaries	**81,332**	77,610
Interests in subsidiaries *(note 27)*	**530,183**	508,111
Current assets		
Amounts due from subsidiaries	**347,450**	340,664
Other receivables	**30**	15
Cash and cash equivalents	**3,239**	1,552
	350,719	342,231
Current liability		
Other payables	**623**	392
	623	392
Net current assets	**350,096**	341,839
Net assets	**880,279**	849,950
Capital and reserves		
Share capital *(note 25(b))*	**77,417**	75,458
Reserves	**802,862**	774,492
Total equity	**880,279**	849,950

27 INVESTMENTS IN SUBSIDIARIES

(a) Subsidiaries

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

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

27 INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Place and date of establishment/ incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and fully paid-up/ registered capital	Principal activities
Ningbo Xingye Xintai New Metal Materials Co., Ltd. ("**Ningbo Xingtai**") 寧波興業鑫泰新型電子材料有限公司	The PRC, March 2011	–	100%	RMB200,000,000/ RMB200,000,000	Manufacture and sale of high precision copper plates and strips
Ningbo Xinghong Property Service Co., Ltd. ("**Xinghong**") 寧波興宏物業服務有限公司	The PRC, November 2015	–	100%	RMB1,000,000/ RMB1,000,000	Property services
Xingye Investment Holdings (HK) Limited ("**Investment (HK)**")	Hong Kong SAR, August 2015	–	100%	HKD1/HKD1	Investment holding
Xingye Investment Holdings Limited ("**Investment**")	British Virgin Islands, June 2015	–	100%	USD1/USD1	Investment holding
Funnytime Limited ("**Funnytime**")	British Virgin Islands, October 2015	–	100%	USD0/USD1,000	Investment holding
Soul Dargon Limited	Hong Kong SAR, October 2015	–	100%	HKD0/HKD1	Investment holding
Hefei Yueyou Network Technology Co., Ltd. ("**Yueyou**") 合肥悅遊網絡科技有限公司	The PRC, January 2016	–	100%	RMB0/ RMB1,000,000	Developing, publishing and operating online games
Hefei Zhangyue Network Technology Co., Ltd. ("**Hefei Zhangyue**") *(note (b))* 合肥掌悅網絡科技有限公司	The PRC, July 2015	–	100%	RMB1,000,000/ RMB1,000,000	Developing, publishing and operating online games
Shenzhen Zhangyue Network Technology Co., Ltd. *(note (b))* 深圳掌悅網絡科技有限公司	The PRC, August 2015	–	100%	RMB1,000,000/ RMB1,000,000	Developing, publishing and operating online games

27 INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Place and date of establishment/ incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and fully paid-up/ registered capital	Principal activities
Hefei Boyou Network Technology Co., Ltd. 合肥博遊網絡科技有限公司	The PRC, May 2017	–	100%	RMB0/ RMB1,000,000	Developing, publishing and operating online games
Ningbo Xingqi Trade Co., Ltd. 寧波興齊貿易有限公司	The PRC, September 2017	–	100%	RMB100,000/ RMB100,000	Purchasing of raw materials and trading of high precision copper plates and strips
Shenzhen Youwei Network Technology Co., Ltd. 深圳遊威網絡科技有限責任公司	The PRC, September 2018	–	100%	RMB20,000/ RMB1,000,000	Developing, publishing and operating online games
Shenzhen Doubao Network Technology Co., Ltd. 深圳豆包網絡科技有限公司	The PRC, June 2018	–	100%	RMB20,000/ RMB1,000,000	Developing, publishing and operating online games
Ningbo Xinyue Alloy Material Co., Ltd. 寧波鑫悅合金材料有限公司	The PRC, March 2018	–	100%	RMB100,000/ RMB50,000,000	Manufacture and sale of high precision copper plates and strips
Shenzhen Yueban Network Technology Co., Ltd. 深圳月半網絡科技有限責任公司	The PRC, September 2018	–	100%	RMB10,000/ RMB1,000,000	Developing, publishing and operating online games
Shenzhen Duohao Network Technology Co., Ltd. 深圳多壕網絡科技有限公司	The PRC, September 2018	–	100%	RMB0/ RMB1,000,000	Developing, publishing and operating online games

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

27 INVESTMENTS IN SUBSIDIARIES (Continued)

(b) Entities controlled through contractual arrangements

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

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

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

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

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

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

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

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

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

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

27 INVESTMENTS IN SUBSIDIARIES (Continued)

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

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

The Company has appointed a trustee for administration of the Share Award Scheme (the "**Trustee**"). The principal activity of the Trustee is administrating and holding the Company's shares for the Share Award Scheme for the benefit of the Company's eligible employees. Pursuant to the Share Award Scheme, the Company's shares will be purchased by the Trustee in the market out of cash contributed by the Company and held in the Trust for relevant employees until such shares are vested in the relevant beneficiary in accordance with the provisions of the Share Award Scheme at no cost. The total number of Company's shares held by the Trustee under the Share Award Scheme will not exceed 20% of the total issued shares of the Company as at the Adoption Date, i.e. 162,223,190 shares.

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

As at 31 December 2018, the Company had contributed HKD12,010,000 (equivalent to RMB10,136,000) (2017: HKD7,000,000 (equivalent to RMB6,078,000)) to the Trust and the amount was recorded as "Investments in subsidiaries" in the Company's statement of financial position.

As at 31 December 2018, the Trustee had purchased 8,688,000 shares (2017: 8,137,000 shares) of the Company at a total cost (including related transaction costs) of HKD7,550,000 (equivalent to RMB6,525,000) (2017: HKD6,999,000 (equivalent to RMB6,124,000)).

27 INVESTMENTS IN SUBSIDIARIES (Continued)

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

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

	2018			2017		
	Average purchase price *HKD*	**No. of shares held**	**Value** *RMB'000*	Average purchase price *HKD*	No. of shares held	Value *RMB'000*
At 1 January	**0.86**	**7,737,000**	**5,817**	0.92	4,021,000	3,256
Shares purchased during the year	**1.00**	**551,000**	**401**	0.80	4,116,000	2,868
Shares vested and transferred to an employee during the year	**–**	**(300,000)**	**(225)**	–	(400,000)	(307)
Shares vested during the previous year and transferred to employees during the year	**–**	**(5,280,000)**	**(3,829)**	–	–	–
At 31 December	**0.87**	**2,708,000**	**2,164**	0.86	7,737,000	5,817

According to the Resolution of the Administration Committee of the Company on 26 May 2017, 1,000,000 ordinary shares held under the Share Award Scheme were granted to an employee of the Group at nil consideration, with 40%, 30% and 30% of the shares to be vested on 15 June 2017, 15 June 2018 and 15 June 2019, respectively. The vesting conditions are only subject to the service conditions. The grant date fair value of HKD0.7 per share (equivalent to approximately RMB0.62 per share) was determined with reference to the closing price of the Company's ordinary shares on 26 May 2017. 400,000 and 300,000 awarded shares were vested and transferred to the grantee during 2017 and 2018, respectively.

According to the Resolution of the Board of the Company on 13 December 2017, 10,060,000 ordinary shares held under the Share Award Scheme were granted to 9 directors and 91 employees of the Group at nil consideration, with 5,280,000 shares (tranche 1), 2,152,000 shares (tranche 2) and 2,628,000 shares (tranche 3) to be vested on 13 December 2017, 13 December 2018 and 13 December 2019, respectively. The vesting conditions are only subject to the service conditions. The grant date fair value of HKD0.85 per share (equivalent to approximately RMB0.72 per share) was determined with reference to the closing price of the Company's ordinary shares on 13 December 2017. 5,280,000 awarded shares were vested on 13 December 2017, and transferred to grantees during 2018.

According to the Resolution of the Board of the Company on 13 December 2018, in order to maintain the employment service of the grantees with the Group for a longer term, the vesting of tranche 2 and tranche 3 awarded shares have been postponed for one year to 13 December 2019 and 13 December 2020, respectively. The modification was not beneficial to the grantees, therefore, there was no impact on the fair value cost of the awarded shares. A service cost of RMB2,264,000 was recognised in the consolidated statement of profit or loss.

27 INVESTMENTS IN SUBSIDIARIES (Continued)

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

(ii) Movements in the number of awarded shares for the years ended 31 December 2018 and 2017 are as follows:

	Number of awarded shares
At 1 January 2017	–
Granted	11,060,000
Vested and transferred during the year	(400,000)
At 31 December 2017	10,660,000
Vested but not transferred as at 31 December 2017	5,280,000
Vested and transferred during the year	(300,000)
Vested during the previous year and transferred during the year	(5,280,000)
Forfeiture	(180,000)
At 31 December 2018	4,900,000
Vested but not transferred as at 31 December 2018	–

During the year ended 31 December 2018, nil shares (2017: 4,800,000 out of the11,060,000 awarded shares with a fair value of RMB3,463,000) were granted to directors (2017: nine directors) of the Company.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit risks, liquidity risks, interest rate risks, currency risks and commodity price risks arise in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risks are primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, bank deposits with maturity over three months, restricted bank deposits and bills receivables is limited because the counterparties are banks, for which the Group considers to have low credit risk. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Trade receivables

The Group's exposure to credit risks is influenced mainly by the individual characteristics of each customer or debtor rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers or debtors. At the end of the reporting period, 15% (2017: 21%) and 39% (2017: 40%) of the total trade receivables were due from the Group's largest customer and five largest customers respectively.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 7 to 90 days from the date of billing. Debtors with balances that are more than the credit term given by the Group are generally requested to settle all outstanding balances before any further credit is granted. In order to mitigate credit risk, the Group purchased credit insurance from an insurance company for the trade receivables of major customers.

The Group does not provide any guarantees which would expose the Group to credit risk.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is further distinguished between the Group's different customer bases.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables based on different business segments as at 31 December 2018:

Copper segment:

	Expected loss rate %	**Gross carrying amount** *RMB'000*	**Loss allowance** *RMB'000*
Current (not past due)	1.9%	225,788	4,391
1 – 90 days past due	2.8%	143	4
91 – 180 days past due	5.0%	–	–
More than 180 days past due	31.4%	35	11
		225,966	4,406

Online games segment:

	Expected loss rate %	**Gross carrying amount** *RMB'000*	**Loss allowance** *RMB'000*
Current (not past due)	0.0%	19,397	–
1 – 90 days past due	4.9%	1,215	60
91 – 180 days past due	30.3%	155	47
More than 180 days past due	98.5%	10,737	10,571
		31,504	10,678

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(m)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of RMB1,540,000 were determined to be impaired. The ageing analysis of trade receivables that were not considered to be impaired was as follows:

	2017 *RMB'000*
Neither past due nor impaired	464,293
Less than 3 months past due	3,786
Over 3 months past due	92
	468,171

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Balance at 31 December 2017 under IAS 39	**462**	–
Impact on initial application of IFRS 9 *(note 2(c)(i))*	**4,571**	–
Balance at 1 January	**5,033**	–
Impairment losses recognised during the year	**10,051**	462
Balance at 31 December	**15,084**	462

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

Comparative information under IAS 39 (Continued)

The following significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during 2018:

– increase in amounts past due over 180 days resulted in an increase in loss allowance of RMB10,582,000.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with any lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	2018 Contractual undiscounted cash outflows				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	743,937	46,728	–	790,665	774,023
Trade and other payables	390,665	–	–	390,665	390,665
	1,134,602	46,728	–	1,181,330	1,164,688

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

	2017 Contractual undiscounted cash outflows				
	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	Total *RMB'000*	Carrying amount at 31 December *RMB'000*
Interest-bearing borrowings	648,697	179,428	61,429	889,554	858,751
Trade and other payables (excluding contingent consideration payables)	597,349	–	–	597,349	597,349
	1,246,046	179,428	61,429	1,486,903	1,456,100

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand. Changes in exchange rates affect the Renminbi value of sales proceeds of products, the settlement of liabilities for purchase and repayment of loans that are denominated in foreign currencies.

Exposure to currency risk

The following table details the Group's exposures at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The Group used foreign exchange forward contracts to manage its currency risk. All of the foreign exchange forward contracts have maturities of less than one year after the end of the reporting period.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

Exposure to currency risk (Continued)

	2018			2017		
	United Stated Dollars	**Euros**	**Japanese Yen**	United Stated Dollars	Euros	Japanese Yen
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables	**51,074**	**–**	**–**	55,164	–	–
Cash and cash equivalents	**107,132**	**–**	**–**	76,686	15	–
Restricted bank deposits	**20,590**	**–**	**–**	58,825	–	–
Interest-bearing borrowings	**(125,046)**	**–**	**–**	(127,609)	–	–
Trade and other payables	**(182,614)**	**(10,125)**	**(524)**	(254,800)	(10,067)	(1,613)
Gross exposure arising from recognised assets and liabilities	**(128,864)**	**(10,125)**	**(524)**	(191,734)	(10,052)	(1,613)
Notional amounts of foreign exchange forward contracts used as economic hedges	**130,401**	**–**	**–**	91,479	–	–
Net exposure arising from recognised assets and liabilities	**1,537**	**(10,125)**	**(524)**	(100,255)	(10,052)	(1,613)

The Group:

	Average rate		Rate at reporting date	
	2018	2017	**2018**	2017
USD1	**6.6174**	6.7518	**6.8632**	6.5342
EUR 1	**7.8016**	7.6303	**7.8473**	7.8023
JPY 1	**0.0585**	0.0602	**0.0619**	0.0579

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

Exposure to currency risk (Continued)

Sensitivity analysis

A 5 percent strengthening of the Renminbi against the following currencies at 31 December 2018 would have changed profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017.

	2018 *RMB'000*	2017 *RMB'000*
Effect on profit after tax and equity (decrease)/increase		
USD	(58)	3,760
EUR	380	377
JPY	20	60

A 5 percent weakening of the Renminbi against the above currencies at 31 December 2018 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings.

Profile

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was as follows.

	2018 *RMB'000*	2017 *RMB'000*
Fixed rate borrowings	601,523	708,751
Variable rate borrowings	172,500	150,000
	774,023	858,751

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Profile (Continued)

Fair value sensitivity analysis for fixed rate borrowings

The Group does not account for any fixed-rate financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate borrowings

As at 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax for the year and consolidated equity by approximately RMB1,294,000 (2017: RMB1,125,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and consolidated equity that would arise assuming that the change in interest rates had occurred at the reporting date and had been applied to re-measure those floating rate non-derivative instruments held by the Group which expose the Group to cash flow interest rate risk at the reporting date. The impact on the Group's profit after tax and consolidated equity is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis as 2017.

(iii) Commodity price risk

The Group uses future contracts traded on the Shanghai Futures Exchange and London Metal Exchange to hedge against price fluctuations of raw materials, mainly copper. The future contracts are marked to market at the reporting date and the corresponding unrealised holding gains/losses are recorded in profit or loss. For details of the exposure to future contracts, please refer to note 19.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets:				
Derivative financial instruments:				
– Future contracts	876	876	–	–
Contingent consideration receivables	29,548	–	–	29,548
Liabilities:				
Derivative financial instruments:				
– Future contracts	(209)	(209)	–	–
– Foreign exchange forward contracts	(13)	(13)	–	–
Contingent consideration payables	(3,828)	–	–	(3,828)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Fair value measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets:				
Derivative financial instruments:				
– Future contracts	1,765	1,765	–	–
Liabilities:				
Derivative financial instruments:				
– Future contracts	(4,752)	(4,752)	–	–
– Foreign exchange forward contracts	(6,855)	(6,855)	–	–
Contingent consideration payable				
– Current	(17,950)	–	–	(17,950)
– Non-current	(23,704)	–	–	(23,704)

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of contingent consideration receivables is estimated as being the present value of future cash flows, applying a risk-adjusted discount rate.

A 1% increase or decrease in the discount rate used while holding all other variables constant would decrease or increase in the carrying amount of contingent consideration receivables by RMB316,000 or RMB322,000 (2017: Nil), respectively.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at the end of the reporting period.

29 COMMITMENTS

(a) Capital commitments

Capital commitments in respect of acquisition of property, plant and equipment at the end of the reporting period not provided for in the consolidated financial statements were as follows:

	2018 *RMB'000*	2017 *RMB'000*
Contracted for	18,808	3,526

(b) Operating lease commitments

Non-cancellable operating lease rentals in respect of staff dormitories and office buildings were payable as follows:

	2018 *RMB'000*	2017 *RMB'000*
Within 1 year	1,045	1,117
Over 1 year but less than 5 years	1,741	106
	2,786	1,223

30 RELATED PARTY TRANSACTIONS

Key management personal remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's Directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Short-term employee benefits	4,857	5,384
Equity-settled share-based payments	1,151	1,936
Post-employee benefits	46	20
	6,054	7,340

31 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2018, the Directors consider the immediate and ultimate controlling parties of the Group to be various parties including 4 entities and 9 individuals. These 4 entities do not produce financial statements available for public use.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over Income Tax Treatments*	1 January 2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified certain aspects of IFRS 16 which may have impact on the Group's financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

IFRS 16, Leases

As disclosed in note 2(l), currently the Group classifies leases as operating leases and accounts for the lease arrangements according to the nature of the lease. The Group enters into leases as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 29(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB2,786,000, the majority of which is payable either within 1 year after the reporting date or between 1 and 5 years. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets in respect of existing operating leases will be adjusted to RMB2,444,000 and RMB2,444,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statements from 2019 onwards.

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**4,996,057**	4,495,001	3,435,511	2,942,663	3,370,976
Gross profit	**418,378**	524,434	552,532	258,328	269,437
Profit attributable to equity shareholders of the Company	**27,529**	135,544	84,805	18,848	18,753

EARNINGS PER SHARE

	2018	2017	2016	2015	2014
Basic earnings per share [1] *(RMB)*	**0.03**	0.16	0.10	0.02	0.03
Diluted earnings per share [1] *(RMB)*	**0.03**	0.16	0.10	0.02	0.03

ASSETS,LIABILITIES AND EQUITY

	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Restated)
Non-current assets	**997,383**	1,177,371	1,288,991	1,191,086	1,126,052
Current assets	**1,389,645**	1,478,085	1,268,335	1,042,426	1,322,165
Total assets	**2,387,028**	2,655,456	2,557,326	2,233,512	2,448,217
Non-current liabilities	**94,692**	313,239	190,783	394,483	340,235
Current liabilities	**1,217,972**	1,302,976	1,480,653	1,035,954	1,390,812
Total liabilities	**1,312,664**	1,616,215	1,671,436	1,430,437	1,731,047
Net current assets/(liabilities)	**171,673**	175,109	(212,318)	6,472	(68,647)
Total assets less current liabilities	**1,169,056**	1,352,480	1,076,673	1,197,558	1,057,405
Total equity attributable to equity shareholders of the Company	**1,051,913**	1,012,172	858,131	778,772	680,718
Non-controlling interests	**22,451**	27,069	27,759	24,303	36,452

FIVE YEARS FINANCIAL SUMMARY

FINANCIAL RATIOS AND OTHER FINANCIAL INFORMATION

	2018	2017	2016	2015	2014 (Restated)
EBITDA *(RMB'000)*	**193,123**	310,799	221,524	128,913	125,702
Profitability ratios:					
Gross profit margin (2) *(%)*	**8.4%**	11.7%	16.1%	8.8%	8.0%
Operating profit margin (3) *(%)*	**1.0%**	4.8%	4.7%	2.5%	1.9%
Net profit margin (4) *(%)*	**0.6%**	3.0%	2.5%	0.6%	0.6%
EBITDA margin (5) *(%)*	**3.9%**	6.9%	6.4%	4.4%	3.7%
Rate of return on equity (6) *(%)*	**2.6%**	13.4%	9.9%	2.4%	2.8%
Liquidity ratios:					
Current ratio (7) *(times)*	**1.1**	1.1	0.9	1.0	1.0
Quick ratio (8) *(times)*	**0.6**	0.6	0.5	0.6	0.6
Inventory turnover (9) *(days)*	**37**	40	42	46	40
Trade receivable turnover (10) *(days)*	**28**	34	31	32	32
Trade payable turnover (11) *(days)*	**34**	53	69	58	46
Capital adequacy ratios:					
Gearing ratio (12) *(%)*	**36.2%**	40.6%	38.3%	44.1%	59.6%
Net gearing ratio (13) *(%)*	**42.6%**	56.0%	56.4%	74.6%	114.6%
Interest coverage ratio (14) *(times)*	**5.0**	7.3	5.1	2.4	2.8

Notes:

(1) The basic earnings per share and diluted earnings per share are equal to the profit attributable to equity shareholders of the Company divided by the weighted average number of ordinary share in issue during the year and weighted average number of ordinary share(diluted), respectively.

(2) Gross profit margin is equal to gross profit divided by turnover times 100%.

(3) Operating profit margin is equal to operating profit divided by turnover times 100%.

(4) Net profit margin is equal to profit attributable to equity shareholders of the Company divided by turnover times 100%.

(5) EBITDA margin is equal to EBITDA divided by turnover times 100%.

(6) Rate of return on equity is equal to profit attributable to equity shareholders of the Company divided by total equity attributable to equity shareholders of the Company times 100%.

(7) Current ratio is equal to current assets divided by current liabilities.

(8) Quick ratio is equal to current assets net of inventories divided by current liabilities.

(9) Inventory turnover is equal to the average of the beginning and ending inventory volume for the year divided by the sales volume times 365 days.

(10) Trade receivable turnover is equal to the average of the beginning and ending trade and bills receivables for the year divided by turnover times 365 days.

(11) Trade payable turnover is equal to the average of the beginning and ending trade and bills payables for the year divided by cost of sales times 365 days.

(12) Gearing ratio is equal to net debt (total interest-bearing borrowings less cash and cash equivalents) divided by total capital (equity attributable to equity shareholders of the Company plus net debt) times 100%.

(13) Net gearing ratio is equal to net debt net of restricted bank deposits and bank deposits with maturity over three months divided by total equity attributable to equity shareholders of the Company times 100%.

(14) Interest coverage ratio is equal to EBITDA divided by interest expenses.