

2019 INTERIM REPORT



Feiyu Technology International Company Ltd.

飛魚科技國際有限公司

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code : 1022



To Better The Virtual World



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Ms. LIU Qianli
Mr. LAI Xiaoling
Mr. MA Suen Yee Andrew

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. BI Lin
Ms. LUI Mei Ka

JOINT COMPANY SECRETARIES

Ms. LUI Mei Ka
Ms. WEI Yulan

LEGAL ADVISERS

As to Hong Kong law:

Dentons Hong Kong LLP
Suite 3201, Jardine House
1 Connaught Place
Central, Hong Kong

As to Cayman Islands law:

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

AUDITORS

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



CORPORATE INFORMATION

REGISTERED OFFICE

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

CORPORATE HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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98 Thomson Road
Wanchai, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

The Industrial and Commercial Bank of China Xiamen Branch, Chengjian sub-branch

No. 270 Lujiang Road
Xiamen, Fujian Province
PRC

China Merchants Bank, Beijing branch Jianwaidajie sub-branch

No. 0668, Block 6, Jianwai SOHO
No. 39 Dongsanhuan Zhonglu
Chaoyang District
Beijing, PRC

INVESTOR RELATIONS

Christensen China Limited

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

COMPANY'S WEBSITE

www.feiyuhk.com

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

1022

DATE OF LISTING

5 December 2014

FINANCIAL HIGHLIGHTS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six Months Ended 30 June		Change %
	2019 (RMB'000) (Unaudited)	2018 (RMB'000) (Unaudited)	
Revenue	41,661	45,778	(9.0)
Gross profit	24,600	18,371	33.9
Loss before tax	(35,628)	(40,816)	(12.7)
Loss for the period attributable to owners of the parent	(33,420)	(37,442)	(10.7)
Non-IFRSs Measures			
– Adjusted net loss attributable to owners of the parent ⁽¹⁾	(32,310)	(33,210)	(2.7)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic & Diluted	RMB(0.02)	RMB(0.02)	

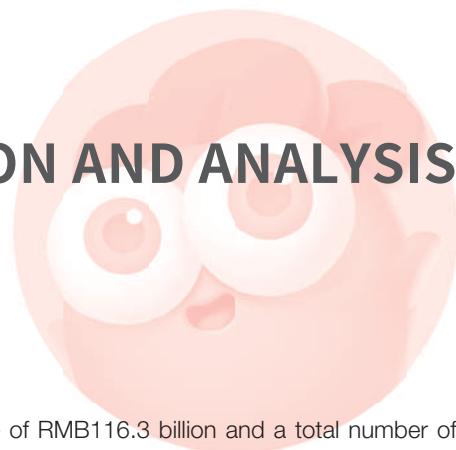
Note:

- (1) We define adjusted net loss attributable to owners of the parent as net loss attributable to owners of the parent excluding share-based compensation. The term of adjusted net loss attributable to owners of the parent is not defined under IFRSs. The use of adjusted net loss attributable to owners of the parent has material limitations as an analytical tool as it does not include all items that would impact our net loss attributable to owners of parent for the accounting period.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of 30 June 2019 (RMB'000) (Unaudited)	As of 31 December 2018 (RMB'000) (Audited)	Change %
	Assets		
Non-current assets	490,603	492,279	(0.3)
Current assets	230,455	284,333	(18.9)
Total assets	721,058	776,612	(7.2)
Equity and liabilities			
Total equity	552,951	577,974	(4.3)
Non-current liabilities	40,406	21,986	83.8
Current liabilities	127,701	176,652	(27.7)
Total liabilities	168,107	198,638	(15.4)
Total equity and liabilities	721,058	776,612	(7.2)

MANAGEMENT DISCUSSION AND ANALYSIS



OVERVIEW

In the first half of 2019, China's online game industry recorded a total revenue of RMB116.3 billion and a total number of gamers of 554 million, representing a year-over-year increase of 10.8% and 5.1% respectively, according to the China's Game Industry Report for 1H2019 published by Gamma Data (伽馬數據). The mobile game sector rebounded and total revenue increased by 18.8% year-over-year to RMB75.3 billion during the period.

With smartphone penetration in China saturating in recent years and the demographic dividend for mobile internet diminishing, China's online game industry has slowed down after continuously recorded significant growth in the early and mid-2010s'. The situation has exacerbated since March 2018, when the Chinese government imposed a freeze on new games approvals, which were only resumed after around nine months. In the first half of 2019, businesses of online game developers and operators in China have still been affected due to the constrained new game launches and the Company was no exception.

For the six months ended 30 June 2019, the Company generated total revenue of approximately RMB41.7 million, representing a year-over-year decrease of 9.0%. Net loss attributable to owners of the parent was approximately RMB33.4 million, compared with approximately RMB37.4 million for the same period of last year, representing a year-over-year improvement of 10.7%. Adjusted net loss attributable to owners of the parent was approximately RMB32.3 million, compared with RMB33.2 million for the same period of last year. The year-over-year decrease in total revenue was primarily due to the decrease in revenue from some of the Company's existing games which have reached the late stages of their respective lifecycles, and the delay in launching several new games as a result of the Company's strategic decision to further extend their development time to enhance quality as well as the above-mentioned months-long freeze and regulatory restriction on new game approvals.

Despite the challenges, there are still opportunities in the market as reflected in its annual income which has increased by dozens of billions Renminbi per year. While the 554 million of gamers in China have shown stronger willingness to make in-game-purchase and have become more sophisticated, only games with high quality could be attractive and sustained in the market, which is in line with the Company's business strategy since its inception. Over the past decade, the Company has developed dozens of popular games and accumulated a great number of well-recognised Intellectual Properties (IP), including but not limited to Carrot Fantasy (保衛蘿蔔), San Guo Zhi Ren (三國之刃), Shen Xian Dao (神仙道) and Super Phantom Cat (超級幻影貓). Going forward, the Company will leverage the existing extensive user base and established brand awareness of the IPs, and adopt new gameplays, such as Multiplayer Online Battle Arena (MOBA), to develop game series in an effort to generate not only word of mouth, but also decent financial return.

During the first half of 2019, the Company launched 4 games, including: (i) Peace in Chang An (天下長安), a 3D ARPG mobile game based on the IP that was licensed from a TV series of the same name; (ii) Kung Fu Da Huang Dou (功夫大黃豆), a 3D RPG mobile game based on the IP licensed from a Chinese animated movie named TOFU; (iii) Rise of Heroes (阿拉伯英雄), an RPG game targeting global markets, and (iv) the console version of Super Phantom Cat II (超級幻影貓 2) on Nintendo Switch, the best-selling video game console introduced by Nintendo. In the meantime, the Company's existing games, such as Shen Xian Dao (神仙道), have been demonstrating very stable financial performance even at the late stage of their respective lifecycles thanks to the strong user loyalty derived from the high quality in game development and consistently excellent operation.



MANAGEMENT DISCUSSION AND ANALYSIS

As an integral part of the Company's strategy, IP licensing business continued to solidify the foundation for the long term development of the Company's IP portfolio in the first half of this year. The Company issued a license allowing the use of the image of major characters in Carrot Fantasy (保衛蘿蔔) game series in Meitu (美圖) apps globally leveraging the game characters' popularity as well as the tremendous user base of Meitu (美圖) apps and its overlap with the games' target users. With respect to the cooperation with existing licensing partners, the Company renewed the contracts that expired in the first half of 2019 given the mutual benefits of financial return and brand awareness. Based on the renewed contracts, the Company continued to partner with: i) China Children's Press & Publication Group for Carrot Fantasy (保衛蘿蔔) books sold in the markets of Mainland China, Hong Kong, Macao, Taiwan, South Korea, and Southeast Asian countries; ii) Manufacture d'Articles de Précision Et de Dessin ("Maped") for Carrot Fantasy (保衛蘿蔔) stationery sold in Mainland China, Hong Kong and Macao; iii) Yunnan Baiyao (雲南白藥), a well-recognised dental health product manufacturer in China for their dental health and personal care products with the images of Carrot Fantasy (保衛蘿蔔), and iv) Beijing Guoyuan Blue Ocean Investment Co., Ltd. (北京國元藍海投資有限公司) for Carrot Fantasy (保衛蘿蔔)-themed accessories of cell phone, laptop and tablet sold in Mainland China.

Termination of Exclusive Licensing Agreement with Meitu Networks

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

OUTLOOK FOR 2019

In the second half of 2019, the Company will continue to focus on developing high-quality games for users leveraging its well-recognised IPs and accumulated know-how in crafting hit titles. The Company's thirteen Research & Development (R&D) teams have been striving to develop mid-to hardcore and casual games appealing to various types of gamers. Based on current game pipeline and development schedule, the Company plans to launch Carrot Fantasy IV (保衛蘿蔔4) in the fourth quarter of 2019, the sequel to Carrot Fantasy (保衛蘿蔔) game series, which have accumulated over 500 million registered users. There are also a number of other new games in the pipeline that the Company targets to launch in the second half of this year, however, the exact launching time will be dependent on the testing results and governmental approvals.

On the game publishing side, the Company will continue to strengthen the capability which is complementary to the game development and operation business. The Company plans to publish Horcrux College (魂器學院) in the third quarter of 2019, which is a two-dimensional space type of game and has demonstrated great potential at the testing stage, when it ranked number 1 on the most expected game list in bilibili, a leading anime, comics and games (ACG) platform which is particularly popular among the young generations in China.

In terms of IP licensing, the Company will renew the agreement with NICI International Trading (Shanghai) Co., Ltd. for the plush toy designed using the images in Carrot Fantasy (保衛蘿蔔) game series. A license was also issued to China Publishing Group Xindeco (Xiamen) Culture Media Co., Ltd. (中版信達(廈門)文化傳媒有限公司) in July 2019 by the Company for the images in Carrot Fantasy (保衛蘿蔔) to be used in the Golden Dolphin IP Derivatives Design Competition during the 2019 Xiamen International Animation Festival. In addition, the Company plans to further grow the IP licensing business with the launch of Carrot Fantasy IV (保衛蘿蔔4).

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).



FINANCIAL REVIEW

Operating Information

Our Games

During the six months ended 30 June 2019, the Group continued to develop high-quality games, including mobile and console games with a strategic focus on the former, and strengthen our game publishing capabilities, in order to meet the evolving demands of gamers despite the unfavorable policy environment and intense competition in the game industry. During the six months ended 30 June 2019, the Group launched three RPG games which included Kung Fu Da Huang Dou (功夫大黃豆), a 3D RPG mobile game based on the IP that was licensed from a Chinoiserie animated movie named TOFU, the international version of Rise of Heroes (阿拉伯英雄) and Peace in Chang An (天下長安), a 3D ARPG mobile game based on the IP that was licensed from a TV series of the same name. The Group also launched the console version of Super Phantom Cat II (超級幻影貓II) on Nintendo Switch in the first half of 2019 and received positive feedback.

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

	For the six months ended 30 June			
	2019	(% of Total Revenue)	2018	(% of Total Revenue)
	(RMB'000)		(RMB'000)	
Game Operations				
Web games	7,701	18.5	7,776	17.0
Mobile games				
RPGs	18,632	44.7	27,040	59.1
Casual	2,980	7.2	3,637	7.9
PC games	317	0.7	199	0.4
HTML5 games	170	0.4	899	2.0
Console games	202	0.5	–	–
Total	30,002	72.0	39,551	86.4

Revenue contributed by game operation to total revenue decreased from approximately 86.4% during the six months ended 30 June 2018 to approximately 72.0% during the six months ended 30 June 2019. The decrease was mainly due to the decrease in revenue contribution from mobile games and the increases in revenue contribution from online game distribution and advertising business. Revenue contribution from online game distribution accounted for approximately 7.2% during the six months ended 30 June 2019, representing an increase of 6.0% compared to approximately 1.2% for the corresponding period in 2018, which was primarily attributable to the launch of new games by our Shenzhen game distribution and operation team. Revenue contribution from advertising business accounted for approximately 11.0% during the six months ended 30 June 2019, representing an increase of 6.2% compared to approximately 4.8% for the corresponding period in 2018, which was primarily attributable to the increase in advertising revenue of Carrot Fantasy (保衛蘿蔔) series as a result of our cooperation with Toutiao (今日頭條) since the second half of 2018. The decrease in revenue contribution from mobile games were primarily due to the decline in revenue from our existing RPG games as they reached the late stages of their respective lifecycles.

MANAGEMENT DISCUSSION AND ANALYSIS

Our Players

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

As at 30 June 2019, (i) our RPG mobile games and web games had approximately 226.5 million cumulative registered users, composed of approximately 171.9 million users for web games and approximately 54.6 million users for mobile games; and (ii) our casual games had approximately 539.3 million cumulative activated downloads; (iii) our PC games had approximately 0.3 million cumulative copies sold; (iv) our HTML5 game had approximately 31.3 million cumulative registered users; and (v) our console game had approximately 17,000 cumulative copies sold. For the month of June 2019, (i) our RPG mobile games and web games had approximately 0.5 million MAUs in aggregate, composed of approximately 0.3 million MAUs for mobile games and approximately 0.2 million MAUs for web games; (ii) our casual games had approximately 5.2 million MAUs; and (iii) our H5 game had approximately 0.3 millions MAUs.

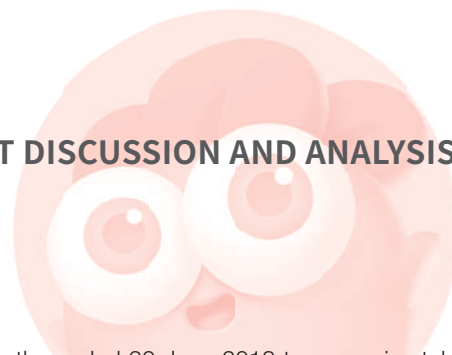
The following table sets forth certain operating statistics relating to our businesses for the periods indicated:

	Six Months Ended 30 June		
	2019	2018	Change %
Average MPUs			
Web games (RPGs) (000's)	9	11	(18.2)
Mobile games (RPGs) (000's)	34	34	–
Casual (000's)	89	131	(32.1)
ARPPU			
Web games (RPGs) (RMB)	138.1	118.4	16.6
Mobile games (RPGs) (RMB)	91.3	131.2	(30.4)
Casual (RMB)	5.6	5.8	(3.4)

Note: Duplicated paying users of our games published on our own platforms were not eliminated during calculation.

Average MPUs for mobile RPG games were approximately 34,000 for the six months ended 30 June 2019, which have remained constant as compared to approximately 34,000 for the corresponding period in 2018. Average MPUs for casual games decreased from approximately 131,000 for the six months ended 30 June 2018 to approximately 89,000 for the six months ended 30 June 2019, primarily attributable to the decrease in the average MPUs for the Carrot Fantasy (保衛蘿蔔) game series, which have reached the later stages of their expected lifecycles in 2017. MPUs for web games were approximately 9,000 for the six months ended 30 June 2019 as compared to approximately 11,000 for the corresponding period of 2018. The decrease was due to the fact that our web games reached the later stages of their expected lifecycles, as well as our strategic focus shifted from web games to mobile games since 2013.

MANAGEMENT DISCUSSION AND ANALYSIS



ARPPU for web games increased from approximately RMB118.4 for the six months ended 30 June 2018 to approximately RMB138.1 for the six months ended 30 June 2019, primarily driven by the increase in ARPPU for the web version of Shen Xian Dao (神仙道), which have entered the mature stage of its expected lifecycle when loyal players were more willing to make in-game purchase. ARPPU for RPG mobile games decreased from approximately RMB131.2 for the six months ended 30 June 2018 to approximately RMB91.3 for the six months ended 30 June 2019 due to the decline in ARPPU from our RPG mobile game San Guo Zhi Ren (三國之刃), which had already begun to reach the later stage of its expected lifecycle since 2017. The termination of Sprites Legend (靈妖記-神仙道外傳) which is an RPG game contributing higher ARPPU for the second half of 2018 also resulted in the lower ARPPU of RPG mobile games. ARPPU for casual games decreased slightly from approximately RMB5.8 for the six months ended 30 June 2018 to approximately RMB5.6 for the six months ended 30 June 2019, primarily attributable to the decrease in ARPPU from the Carrot Fantasy (保衛蘿蔔) game series.

As part of our business strategies, we continued to launch various in-game promotions and activities, release regular updates for our premium games and offer high-quality customer service, in order to enhance the features of our games and to maintain users' interests. We believed all these initiatives have had significant influence on retaining our active players and expanding our active player base.

First Half of 2019 Compared to First Half of 2018

The following table sets forth the income statement for the six months ended 30 June 2019 as compared to that for the six months ended 30 June 2018.

	Six Months Ended 30 June		Change %
	2019 (RMB'000)	2018 (RMB'000)	
Revenue	41,661	45,778	(9.0)
Cost of sales	(17,061)	(27,407)	(37.7)
Gross profit	24,600	18,371	33.9
Other income and gains	10,216	13,231	(22.8)
Selling and distribution expenses	(4,965)	(4,697)	5.7
Administrative expenses	(27,617)	(25,450)	8.5
Research and development costs	(35,186)	(40,443)	(13.0)
Finance costs	(1,604)	(746)	115.0
Other expenses	(212)	(364)	(41.8)
Share of losses of associates	(860)	(718)	19.8
LOSS BEFORE TAX	(35,628)	(40,816)	(12.7)
Income tax expense	(2,193)	(1,870)	17.3
LOSS FOR THE PERIOD	(37,821)	(42,686)	(11.4)
Attributable to:			
Owners of the parent	(33,420)	(37,442)	(10.7)
Non-controlling interests	(4,401)	(5,244)	(16.1)



MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The following table sets forth a breakdown of our revenue for the six months ended 30 June 2019 and 2018:

	Six Months Ended 30 June			
	2019	(% of Total Revenue)	2018	(% of Total Revenue)
	(RMB'000)		(RMB'000)	
Game operations	30,002	72.0	39,551	86.4
Online game distribution	2,996	7.2	530	1.2
Licensing and IP-related income	3,327	8.0	3,230	7.0
Advertising revenue	4,586	11.0	2,198	4.8
Technical service income	750	1.8	269	0.6
Total	41,661	100.0	45,778	100.0

Total revenue decreased by approximately 9.0% to approximately RMB41.7 million for the six months ended 30 June 2019, compared to the corresponding period of 2018.

Revenue from game operations decreased by approximately 24.1% to approximately RMB30.0 million for the six months ended 30 June 2019 from the corresponding period of 2018. The decrease was primarily due to San Guo Zhi Ren (三國之刃) entering the later stage of its expected lifecycle since 2017, coupled with the termination of Sprites Legend (靈妖記-神仙道外傳) in the second half of 2018. The decrease was also due to the delayed launch of several new games as a result of the restriction on new game approvals and our strategic decision to invest additional development time and resources to enhance overall game quality.

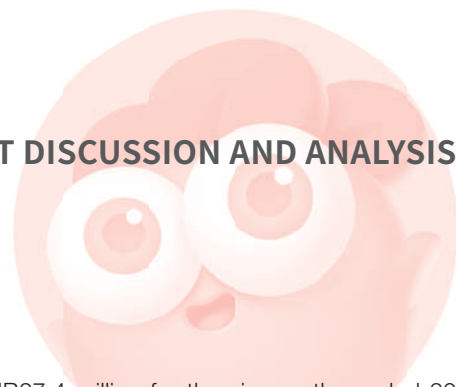
Revenue from online game distribution increased by approximately 465.3% to approximately RMB3.0 million for the six months ended 30 June 2019 from the corresponding period of 2018, which was primarily due to the launch of (i) Kung Fu Da Huang Dou (功夫大黃豆), a mobile game developed by another game developer and (ii) Peace in Chang An (天下長安), a mobile game developed by our associated company and the testing of other mobile games developed by other game developers.

Licensing and IP-related income increased by approximately 3.0% to approximately RMB3.3 million for the six months ended 30 June 2019 from the corresponding period of 2018. The increase was primarily attributable to the recognition of a one-off licensing fee of approximately RMB142,000 for an RPG game developed last year upon termination of its operation during the six months ended 30 June 2019 while there were no such one-off licensing fees recognised during the six months ended 30 June 2018.

Advertising revenue increased by approximately 108.6% to approximately RMB4.6 million for the six months ended 30 June 2019 from the corresponding period of 2018, primarily attributable to the increase in advertising revenue of the Carrot Fantasy (保衛蘿蔔) series as a result of our cooperation with Toutiao (今日頭條) since the second half of 2018.

Technical service income increased by approximately 178.8% to approximately RMB0.8 million for the six months ended 30 June 2019 from the corresponding period of 2018, primarily due to the provision of technical support services to Meitu's game distribution platforms in the first quarter of 2019 after the effective termination of the exclusive licensing agreement with Meitu Networks while there were no such technical support services rendered during the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS



Cost of sales

Our cost of sales decreased by approximately 37.7% from approximately RMB27.4 million for the six months ended 30 June 2018 to approximately RMB17.1 million for the six months ended 30 June 2019, primarily due to the recognition of costs associated with the operation of Meitu's game distribution platforms of approximately RMB7.9 million for the six months ended 30 June 2018, while there were no such costs recognised for the six months ended 30 June 2019. The Group entered into an exclusive licensing agreement with Meitu Networks to operate, develop and manage Meitu Network's game businesses in late-March, 2018. Having considered the Group's future strategic direction and current market environment of game distribution platforms, after due and careful consideration and through negotiations on a friendly basis, on 21 February 2019, the Group and Meitu Networks mutually agreed not to continue with the cooperation and entered into an agreement to terminate the cooperation contemplated under the exclusive licensing agreement. The decrease in our cost of sales was also attributable to the decrease in employee costs from approximately RMB11.5 million for the six months ended 30 June 2018 to approximately RMB9.8 million for the six months ended 30 June 2019, which was associated with the decrease in the number of operational employees to streamline the Company's corporate structure.

Gross profit and gross profit margin

Gross profit increased by 33.9% from approximately RMB18.4 million for the six months ended 30 June 2018 to approximately RMB24.6 million for the six months ended 30 June 2019. Our gross profit margin for the six months ended 30 June 2019 was 59.0%, compared with 40.1% for the corresponding period of 2018.

Other income and gains

Our other income and gains decreased by approximately 22.8% from approximately RMB13.2 million for the six months ended 30 June 2018 to approximately RMB10.2 million for the six months ended 30 June 2019. The decrease was primarily due to a decrease in government grants from approximately RMB7.0 million for the six months ended 30 June 2018 to approximately RMB4.3 million for the six months ended 30 June 2019 as the government grants are in connection with the Group's financial performance.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 5.7% from approximately RMB4.7 million for the six months ended 30 June 2018 to approximately RMB5.0 million for the six months ended 30 June 2019, which was mainly attributable to an increase in advertisement fees from approximately RMB2.2 million to approximately RMB3.7 million, primarily due to the increased number of promotional activities for Peace in Chang An (天下長安) and Rise of Heroes (阿拉伯英雄) which were newly launched in the first half of 2019 and other games under testing. The increase was partially offset by the decrease in channel fees from approximately RMB1.5 million for the six months ended 30 June 2018 to approximately RMB0.8 million for the year ended 30 June 2019, as our self-operated games entered a mature stage of their respective lifecycles and the Group terminated the operation of Sprites Legend (靈妖記-神仙道外傳) in the second half of 2018. The increase was also partially offset by a decrease in employee costs from approximately RMB0.7 million for the six months ended 30 June 2018 to approximately RMB0.4 million, which was associated with the decrease in the number of selling and distribution employees to streamline the Company's corporate structure.



MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

Our administrative expenses increased by approximately 8.5% from approximately RMB25.5 million for the six months ended 30 June 2018 to approximately RMB27.6 million for the six months ended 30 June 2019. The increase was primarily attributable to an increase in professional fees associated with the proposed acquisition of the entire issued share capital of Sharelink of approximately RMB1.7 million. The increase was also due to the recognition of a bad debt on the deposit for the development performance of the land located in Huli District, Xiamen, the PRC (the “**Land**”) as disclosed in the announcement of the Company dated 21 July 2016 of approximately RMB1.6 million for the six months ended 30 June 2019, which we do not expect to recover as we did not fulfill the tax contribution condition as agreed in the agreement in respect of the supervision of the Land, while no such expenses were recognised in the corresponding period of 2018. The increase was partially offset by the decrease in salaries, welfare expenses and pension scheme contributions from approximately RMB13.5 million for the six months ended 30 June 2018 to approximately RMB12.1 million for the six months ended 30 June 2019 as a result of the decreased average number of administrative employees in 2019 to streamline the Group’s structure and control administrative cost.

R&D costs

Our R&D costs decreased by approximately 13.0% from approximately RMB40.4 million for the six months ended 30 June 2018 to approximately RMB35.2 million for the six months ended 30 June 2019, which was primarily attributable to the decrease in salaries and pension scheme contributions from approximately RMB29.1 million for the six months ended 30 June 2018 to approximately RMB23.3 million for the six months ended 30 June 2019 as a result of the decreased average number of R&D employees in 2019 to streamline the Group’s structure.

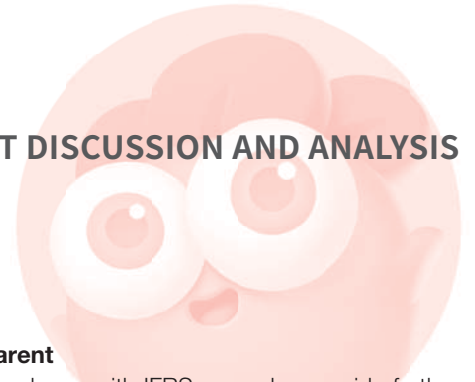
Finance costs

Finance costs increased by approximately 115.0% from approximately RMB746,000 for the six months ended 30 June 2018 to approximately RMB1.6 million for the six months ended 30 June 2019. The increase was primarily due to the increase in interest expenses on time loans taken out by the Company as financial leverage for life insurance policies and general working capital from approximately RMB746,000 for the six months ended 30 June 2018 to approximately RMB1.3 million for the six months ended 30 June 2019 as a result of the higher interest rates and the appreciation of HKD against RMB. The increase was also due to the recognition of interest on lease liability under IFRS 16 of approximately RMB350,000 for the six months ended 30 June 2019 while no such expenses were recognised in the corresponding period of 2018.

Income tax expense

Our income tax expense increased by approximately 17.3% from approximately RMB1.9 million for the six months ended 30 June 2018 to approximately RMB2.2 million for the six months ended 30 June 2019, which was mainly resulted from the decrease in costs and increase in profits of the subsidiaries which were not exempted from income tax.

MANAGEMENT DISCUSSION AND ANALYSIS



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

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

For the six months ended 30 June 2019 and 2018, we defined the adjusted net loss attributable to owners of the parent as net loss attributable to owners of the parent excluding share-based compensation. The term of adjusted net loss or profit attributable to owners of the parent was not defined under IFRSs. The use of adjusted net loss attributable to owners of the parent has material limitations as an analytical tool as it did not include all items that would impact our net loss attributable to owners of the parent for the accounting period.

	Six Months Ended 30 June		Change %
	2019 (RMB'000)	2018 (RMB'000)	
Loss for the period attributable to owners of the parent	(33,420)	(37,422)	(10.7)
Add:			
Share-based compensation	1,110	4,232	(73.8)
Total	(32,310)	(33,210)	(2.7)

Financial Position

As at 30 June 2019, total equity of the Group amounted to approximately RMB553.0 million, compared with approximately RMB578.0 million as at 31 December 2018. The decrease was mainly due to the loss of approximately RMB37.8 million recognised for the six months ended 30 June 2019. The decrease was partially offset by the changes in fair value of the Group's debt investments and transfer of fair value reserve upon the disposal of equity investments of approximately RMB10.4 million recognised in other comprehensive income.

As at 30 June 2019, the Group recorded net current assets of approximately RMB102.8 million, representing a decrease of 4.6% compared with approximately RMB107.7 million as at 31 December 2018.



MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

	30 June 2019 (RMB'000)	31 December 2018 (RMB'000)	Change %
Cash at bank and on hand	157,055	104,922	49.7
Total	157,055	104,922	49.7

Our total cash and cash equivalents amounted to approximately RMB157.1 million as at 30 June 2019, compared with approximately RMB104.9 million as at 31 December 2018. The increase was primarily due to the consideration received regarding the disposal of 4.34% equity interest in TapTap which was approximately RMB108.5 million. The increase was partially offset by the utilisation of our cash and cash equivalents used in operating activities.

As at 30 June 2019, approximately RMB12.5 million of our financial resources (31 December 2018: RMB41.8 million) was held in deposits denominated in non-RMB currencies. We currently do not hedge transactions undertaken in foreign currencies but manage our foreign exchange exposure through limiting our foreign currency exposure and provide constant monitoring. The Group has adopted a prudent cash and financial management policy. In order to better control costs and minimise costs of funds, the Group's treasury activities were centralised and cash was generally deposited at banks and denominated mostly in Renminbi, Hong Kong dollars and United States dollars.

As at 30 June 2019, the Group had aggregate bank loans of approximately RMB91.3 million (31 December 2018: RMB93.0 million), of which approximately RMB58.5 million is repayable within one year and approximately RMB32.8 million is payable after one year but within five years. The Group had lease liabilities of approximately RMB6.0 million, which are to be repaid based on the agreed repayment schedule ranging from 2 to 3 years as set out in the agreements. The increase in lease liabilities was mainly due to additional leases undertaken by the Group for rental of office during the period and the increase in rights-of-use assets upon the adoption of IFRS 16.

As at 30 June 2019, the Group's bank loans included time loan of approximately HK\$66.5 million (31 December 2018: HK\$65.5 million) with an interest rate of 4.178% which was secured by certain life insurance policies as detailed below. In addition, this was used by the Company as financial leverage for the life insurance policies and bank loan for the construction of the Company's R&D center of approximately RMB32.8 million with an interest rate of 5.047% which was secured by the land use rights of the Land and the construction-in-progress on the Land.

Significant Debt Investments at Fair Value Through Other Comprehensive Income, Equity Investments Designated at Fair Value Through Other Comprehensive Income and Debt Investments at Fair Value Through Profit or Loss

As at 30 June 2019, we had debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss of approximately RMB231.6 million (31 December 2018: RMB357.9 million), which represented the straight bonds, convertible bonds and convertible preferred shares issued by banks or reputable companies, with Standard & Poor (“**S&P**”) ratings above BB – and coupon rates ranged from 4.25% to 6.5% per annum which were invested by the Company, the investment in life insurance policies by the Company and interests held by the Group in six unlisted companies and one company listed on the National Equities Exchange And Quotations of the PRC. In August 2015, the Group entered into life insurance policies with an insurance company to insure certain members of the key management of the Group. The Company can terminate the policies at any time and receive the refund based on the surrender value of the contract(s) at the date of withdrawal, which is determined by the insurance premium of each insurance policy plus the accumulated interest earned and minus the insurance costs (“**Surrender Value**”). In addition, if the withdrawal is made between the first and tenth policy years, there is a special amount of surrender charged by the insurance company. The insurance company will declare a guaranteed interest of 3.9% per annum plus a premium determined by the insurance company on the outstanding Surrender Value of the contract for the first three years. Commencing from the fourth year, the guaranteed interest rate will be reduced to 2% per annum. The crediting interest rate for the year ended 31 December 2018 was 3.9%.

The principal of the debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss as at 30 June 2019 were not protected. The fair value of debt investments at fair value through other comprehensive income and debt investments at fair value through profit or loss in straight bonds, convertible bonds and convertible preferred shares had been estimated using a discounted cash flow valuation model based on assumptions that were supported by observable market inputs. The fair value of the life insurance policies represented the surrender value of such insurance policies which is detailed in the above paragraph. The fair values of unlisted equity investments and debt investments were assessed by independent appraisers or employed other available methods.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Details of the Group's debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss as at 30 June 2019 are presented as follows:

(A) *Straight Bonds*

Name of the straight bonds	Notes	Interest income recognized in consolidated statement of profit or loss for the six months ended 30 June 2019 (RMB'000)	Gain on fair value changes recognized in consolidated statement of comprehensive income for the six months ended 30 June 2019 (RMB'000)	Fair value as at 30 June 2019 (RMB'000)	Percentage of total FVOCI and FVPL Investments as at 30 June 2019	Percentage of total assets of the Group as at 30 June 2019
Huarong Finance II Co., Ltd. ("Huarong Finance II")	1	28	20	1,414	0.6%	0.2%
Huarong Finance 2017 Co., Ltd. ("Huarong Finance 2017")	2	443	2,786	21,632	9.3%	3.0%
Bank of East Asia ("BEA")	3	110	20	4,855	2.1%	0.7%

Notes:

- Please refer to note 16 to the financial statements for the details of the bond issued by Huarong Finance II.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS



Pursuant to the positive profit alert of Huarong Group for the six months ended 30 June 2019, Huarong Group recorded a profit for the period of not less than RMB2 billion.

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

2. Please refer to note 16 to the financial statements for the details of the bond issued by Huarong Finance 2017.

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

3. Please refer to note 16 to the financial statements for the details of the bond issued by BEA.

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

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

Pursuant to the interim results announcement of BEA for the six months ended 30 June 2019, BEA recorded the total operating income of approximately HKD10,102 million and profit for the period of approximately HKD1,038 million. Going forward, BEA will seek to raise core revenues through various means, including expanding its customer base, enhancing the customer experience and pursuing its retail transformation strategy on the Mainland. At the same time, the Bank will keep careful control over asset quality and risk, and pursue strategies to reduce funding costs.

The Group believes that BEA is dedicating to implement a package of measures to pursue its sustainable development as well as considerable progress and is therefore optimistic about the future prospect of BEA.

MANAGEMENT DISCUSSION AND ANALYSIS

(B) Convertible Bond

Name of the convertible bond	Note	Interest	Gain on	Fair value	Percentage	Percentage
		income	fair value			
		recognized	changes	as at	of total	of total
		in consolidated	recognized in	Investments	FVOCI and	assets of
		statement of	consolidated	as at	FVPL	the Group
		profit or loss	statement of	30 June 2019	Investments	assets of
		for the	profit or loss	30 June 2019	as at	the Group
		six months	for the	30 June 2019	as at	as at
		ended	six months	(RMB'000)	30 June 2019	30 June 2019
		30 June 2019	ended			
		(RMB'000)	30 June 2019			
			(RMB'000)			
Standard Chartered PLC	1	441	444	14,182	6.1%	2.0%

Note:

- Please refer to note 16 to the financial statements for the details of the convertible bond issued by Standard Chartered PLC.

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

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

Pursuant to the interim report of Standard Chartered Group for the six months ended 30 June 2019, Standard Chartered Group recorded the operating income of approximately US\$7,830 million and profit for the period of approximately US\$1,496 million. Standard Chartered Group are executing refreshed strategic priorities, to improve or develop new customer propositions, and to capture the substantial opportunities in markets.

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

MANAGEMENT DISCUSSION AND ANALYSIS



(C) Convertible Preferred Shares

Name of the convertible preferred shares	Notes	Interest income	Gain on fair value	Fair value as at 30 June 2019 (RMB'000)	Percentage of total FVOCI and FVPL Investments as at 30 June 2019	Percentage of total assets of the Group as at 30 June 2019
		recognized in consolidated statement of profit or loss for the six months ended 30 June 2019 (RMB'000)	changes recognized in consolidated statement of profit or loss for the six months ended 30 June 2019 (RMB'000)			
Industrial and Commercial Bank of China Limited ("ICBC")	1	-	1,881	35,906	15.5%	5.0%
China Cinda Asset Management Co., Ltd. ("Cinda")	2	-	-	-	-	-

Notes:

1. Please refer to note 16 to the financial statements for the details of the convertible preferred shares issued by ICBC.

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

Pursuant to ICBC Group's first quarterly report for the three months ended 31 March 2019, ICBC Group recorded operating income of approximately RMB201,818 million and net profit of approximately RMB82,690 million. By adhering to the principles of "delivering excellence, adhering to our founding mission, customers' favorite, leading in innovation, security and prudence, and people-oriented", ICBC Group continued to enhance its service capability for the real economy, consolidated the foundation of operation and management, optimized its profitability structure and intensified its risk precaution and control ability, achieving stability in both benefits and quality.

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

2. On 30 September 2016, the Group invested in convertible preferred shares issued by China Cinda Asset Management Co., Ltd. with a nominal amount of US\$1,500,000 at a consideration of US\$1,504,000 (equivalent to approximately RMB10.0 million). The convertible preferred shares have a non-cumulative dividend of 4.45% per annum. On 4 January 2019, the Group sold the above convertible preferred shares with an aggregated nominal amount of US\$1,500,000 at an aggregated consideration of US\$1,343,000 (equivalent to approximately RMB9.2 million). Please refer to note 16 to the financial statements and the 2018 annual report of the Company for details of the convertible preferred shares.

MANAGEMENT DISCUSSION AND ANALYSIS

(D) Investment in Life Insurance Policies

Name of the investment in life insurance policies	Note	Interest income	Gain on	Fair value	Percentage	Percentage
		recognized in consolidated statement of profit or loss for the six months ended 30 June 2019 (RMB'000)	fair value changes recognized in consolidated statement of profit or loss for the six months ended 30 June 2019 (RMB'000)			
Investment in life insurance policies	1	–	1,434	96,258	41.6%	13.3%

Note:

- Please refer to note 16 to the financial statements for the details of the investments in life insurance policies.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS



(E) Unlisted Equity Investments

Company Name	Notes	Percentage of shareholdings at 30 June 2019	Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the six months ended		Fair value as at 30 June 2019 (RMB'000)	Percentage of total FVOCI and FVPL investments as at 30 June 2019	Percentage of the total assets of the Group as at 30 June 2019
			30 June 2019 (RMB'000)	30 June 2019 (RMB'000)			
Ewan	1	–	–	–	–	–	–
Xiamen eName Technology Co., Ltd.	2	2.0%	1,218	15,181	15,181	6.6%	2.1%
Others	3	–	(129)	3,737	3,737	1.6%	0.5%

Notes:

- The Group entered into an investment agreement to inject RMB50.0 million in cash into Ewan, as a result of which the Group had held 4.54% of the equity interests in Ewan since 1 June 2017. On 21 June 2018, the Group entered into the Capital Injection Agreement to further inject RMB4.54 million in cash into Ewan. Upon completion of the Capital Injection Agreement on 3 September 2018, the Group's equity interests in Ewan decreased from 4.54% to 4.34%. As disclosed in the announcement of the Company dated 31 January 2019, the Group entered into a share purchase agreements to dispose of an aggregate of 4.34% equity interest in Ewan (representing the entire equity interest indirectly held by the Group in Ewan) at a total cash consideration of RMB108,500,000. Upon completion of the disposal in June 2019, the Group no longer held any interest in Ewan.
- Xiamen eName Technology Co., Ltd. (together with its subsidiaries, "eName") is a company listed on China New Third Board (Stock Code: 838413) principally engaged in domain related businesses and providing domain registration, transfer and transaction services for internet customers. It is a well-known domain service provider in China.

Pursuant to the eName's quarterly report for the three months ended 31 March 2019, eName recorded revenue of approximately RMB29.2 million and net loss after tax of approximately RMB2.7 million. The decrease in revenue and the net loss recorded were mainly attributable to the depressed domain business market. However, eName will be committed to building on its comprehensive platform to provide registration and transaction services for trademark requirements so as to develop and expand the emerging trademark business.

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

- Others comprised of three (3) unlisted limited liability companies and none of these investments accounted for more than 0.3% of the total assets of the Group as at 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

(F) *Unlisted Debt Investments*

Company Name	Notes	Percentage of shareholdings at 30 June 2019	Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the six months ended 30 June 2019 (RMB'000)	Fair value as at 30 June 2019 (RMB'000)	Percentage of total FVOCI and FVPL investments as at 30 June 2019	Percentage of the total assets of the Group as at 30 June 2019
APOLLO CAPITAL L.P. ("APOLLO")	1	–	(1,298)	–	–	–
Future Capital Discovery Fund II, L.P. ("Future Capital")	2	1.8797%	771	16,171	7.0%	2.2%
Others	3	–	175	22,311	9.6%	3.1%

Notes:

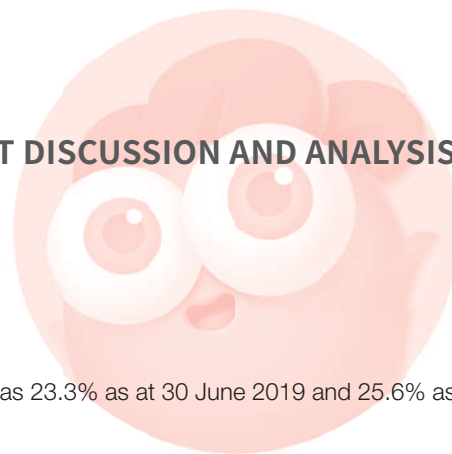
- In 2016, the Group invested US\$5,000,000 in APOLLO, an unlisted limited partnership principally engaged in investment in companies which are primarily in the sectors of auto parts, new materials, electronic information, new energy, energy conservation, emission reduction and environmental protection to achieve earnings in the form of medium to long term capital appreciation. In June 2018, the Group sold part of the above investment with a cost value of US\$3,024,000 for a consideration of US\$3,786,000 (equivalent to approximately RMB25.0 million). In 2019, APOLLO disposed all of the underlying investment under the partnership agreement and the subscription agreement signed by the Group and returned the remaining part of the investment principle and related gains of RMB16,440,000 in total to the Group in June 2019. Please refer to the annual report of the Company for the year ended 31 December 2018 for details of the above investment.
- Future Capital is an unlisted limited partnership principally engaged in investment in companies which are primarily in the sectors of intelligent system, auto system and information technology to achieve earnings in the form of medium to long term capital appreciation.

Pursuant to Future Capital's financial statements for the six months ended 30 June 2019, Future Capital recorded income of approximately US\$2,018 and net increase in partners' capital resulting from operations of approximately US\$6,328,000. Future Capital expected to realise its investments at a later stage in order to enjoy a higher capital appreciation.

The Group believes that Future Capital has sufficient capital and is managed by an experienced management team and the sectors it invests in have positive future and its future business prospect is positive and is expected to grow continuously.
- Others comprised two (2) unlisted debt investments and none of these investments accounted for more than 1.7% of the total assets of the Group as at 30 June 2019.

There was no impairment made for any investments in debt instruments for the six months ended 30 June 2019. Investments in equity instruments do not involve any separate impairment accounting under IFRS 9 – Financial Instruments.

MANAGEMENT DISCUSSION AND ANALYSIS



Gearing ratio

On the basis of total liabilities divided by total assets, the Group's gearing ratio was 23.3% as at 30 June 2019 and 25.6% as at 31 December 2018.

Capital expenditures

The following table sets forth our capital expenditures for the six months ended 30 June 2019 and 2018:

	Six Months Ended 30 June		Change %
	2019 (RMB'000)	2018 (RMB'000)	
Property, plant and equipment	855	1,807	(52.7)
Construction in progress	17,746	16,064	10.5
Total	18,601	17,871	4.1

Capital expenditures consisted of property, plant and equipment and construction in progress, of which the former include but are not limited to office equipment, company vehicles for employees' use and leasehold improvement. The total capital expenditures for the six months ended 30 June 2019 were approximately RMB18.6 million compared with RMB17.9 million for the six months ended 30 June 2018, representing an increase of approximately RMB0.7 million which was primarily due to the increase in construction costs for our R&D center and headquarters in Xiamen, the PRC from approximately RMB16.1 million for the six months ended 30 June 2018 to approximately RMB17.7 million for the six months ended 30 June 2019. The increase was partially offset by the decrease in purchase of office equipment from approximately RMB1.2 million for the six months ended 30 June 2018 to approximately RMB0.1 million for the six months ended 30 June 2019 as a result of setting up our Shenzhen office and development team in the first half of 2018.

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

Disposal of 4.34% Equity Interest in Tap Tap

As disclosed in the announcement of the Company dated 31 January 2019, Xiamen Youli as the seller, entered into share purchase agreements to dispose of an aggregate of 4.34% equity interest in Ewan (representing the entire equity interest held by Xiamen Youli in Ewan) for a total cash consideration of RMB108,500,000. Upon completion of the disposal in June 2019, Xiamen Youli no longer held any interest in Ewan. As at 30 June 2019, the total cash consideration of RMB108,500,000 has been received. This disposal provided an opportunity for the Group to realise the return on its investment in Ewan to strengthen the Group's liquidity to further enhance and develop the core businesses of the Group.

Proposed acquisition of the entire issued share capital of Sharelink and Termination of the transaction in relation to the acquisition

On 2 April 2019, Star Winner (an indirect wholly-owned subsidiary of the Company) as the purchaser (the "**Purchaser**"), YAO Holdings Limited, Longling Capital Ltd, Advance Access International Limited and Billion Champion Enterprises Corporation as the vendors (collectively referred to as the "**Vendors**"), and Mr. YAO Jianjun, Mr. CAI Wensheng, Mr. LI Weiping and Ms. ZHOU Chunlan as the warrantors (collectively referred to as the "**Warrantors**") entered into a share purchase agreement (the "**Share Purchase Agreement**"), pursuant to which, the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to sell, an aggregate of 10,000 shares in Sharelink, representing its entire issued share capital, which is owned as to 100% by the Vendors, at a total consideration of HK\$286,443,813, which shall be settled by the allotment and issue of 818,410,895 new Shares by the Company at an issue price of HK\$0.35 per new Share. For details, please refer to the Company's announcement dated 2 April 2019 and the circular (the "**Circular**") dated 5 June 2019.



MANAGEMENT DISCUSSION AND ANALYSIS

However, since the despatch of the Circular, the Company has received queries from various Shareholders on, among other things, the reasons for and payment structure of the acquisition as well as the dilution effect on the issuance of the consideration shares on their own shareholding. After careful consideration of the enquiries and view of the Shareholders, the Parties entered into the a termination deed on 12 July 2019 (the “**Termination Deed**”), pursuant to which (i) the Parties agreed to terminate the Share Purchase Agreement and all agreements and transactions contemplated thereunder (whether or not the relevant transactions have been started or are in progress) and release the Parties from all obligations and duties under the share purchase agreement with effect immediately upon the entering into of the Termination Deed; and (ii) the Parties undertake not to claim for any damages or claims of any nature, nor file any litigation nor propose any other legal procedures against other Parties, and at the same time agree to waive all relevant claims and rights of recourse. The Company may re-negotiate with the Vendors in relation to the terms of the acquisition of the entire issued share capital of Sharelink, including but not limited to the structure of the deal and payment method, subject to compliance with the Takeovers Code and the Listing Rules. For details, please refer to the Company’s announcements dated 12 and 24 July 2019.

Decrease in investment in Global OW Technology Co., Limited (“Global OW”)

On 25 June 2019, the Company entered into a supplemental agreement to decrease the amount of investment made by the Company into Global OW, a private limited company incorporated in Hong Kong, which holds a 97.132% equity stake in Etranss, one of the cryptocurrency exchanges approved by Bangko Sentral ng Pilipinas (BSP), the central bank of the Philippines, from RMB20.0 to RMB13.0 million. With the supplemental agreement taking effect, the Company’s ownership of Global OW decreased from 20% to 13%. As at 30 June 2019, the Company has invested approximately RMB12.4 million into Global OW.

Save as disclosed in this interim report, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2019. Apart from those disclosed in this interim report, there was no plan authorised by the Board for other significant investment or acquisition of major capital assets or other businesses in the second half of 2019. However, the Group will continue to identify new opportunities for business development.

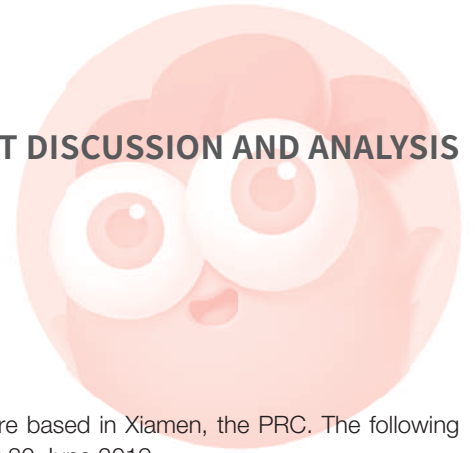
Pledge of Assets

As at 30 June 2019, a bank loan of the Group amounting to HK\$66.5 million which was used as a lever of our investment in life insurance policies was secured by the life insurance policies with a fair value of US\$14.0 million. As at 30 June 2019, a bank loan of the Group of RMB32.8 million (under a loan facility of up to RMB120.0 million) was used for the construction of the Company’s R&D center, which was secured by the land use rights of the Land and the construction-in-progress on the Land with total carrying values of approximately RMB174.6 million.

Contingent liabilities and guarantees

As at 30 June 2019, we did not have any unrecorded significant contingent liabilities, guarantees or any litigation with claims made against us.

MANAGEMENT DISCUSSION AND ANALYSIS



EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, we had 430 full-time employees, the majority of whom are based in Xiamen, the PRC. The following table sets forth the number of our employees segregated by their functions as at 30 June 2019:

	Number of Employees	% of Total
Development	260	60.5
Operations	88	20.5
Administration	78	18.1
Sales and marketing	4	0.9
Total	430	100.0

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

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

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



MANAGEMENT DISCUSSION AND ANALYSIS

Use of Net Proceeds from Listing

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

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

	Available to utilise		Utilised (up to 30 June 2019)	Unused balance
	RMB'000	Percentage	RMB'000	RMB'000
Expanding and enhancing game portfolio	185,281	40%	185,281	–
Expanding marketing and promotion activities	92,641	20%	78,279	14,362
Establishing and expanding international operations in selected overseas markets	69,480	15%	50,290	19,190
Potential acquisitions of technologies and complimentary online games or business, partnerships and licensing opportunities	69,480	15%	69,480	–
Supplementing working capital and for other general corporate purposes	46,320	10%	46,320	–
	463,202	100%	429,650	33,552

Note: The figures above are approximate figures.

The unused balance of the net proceeds of approximately RMB33.6 million are currently placed with reputable banks as the Group's cash and cash equivalents.

As at 30 June 2019, the Group had utilised the net proceeds from the Global Offering of RMB429.7 million as detailed above in accordance with the intended use of net proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The unused balance of approximately RMB33.6 million, consisted of (i) approximately RMB14.4 million, which is intended to be used for expanding our marketing and promotion activities, in particular for promoting our new games, such as Horcrux College (魂器學院), a RPG game which was launched in the third quarter of 2019; and (ii) approximately RMB19.2 million, which is intended to be used for establishing and expanding our international operations in selected overseas markets, in particular for promoting Rise of Heroes in global market, console version of Super Phantom Cat II (超級幻影貓II) in global market and certain new games planned to be launched in overseas markets in the second half of 2019, and the budgeted amount is expected to cover the selling & marketing expenses till the end of 2019.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

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

As at 30 June 2019, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in Shares

Name of Director/ chief executive	Capacity	Number of ordinary shares held (long position)	Approximate percentage of shareholding ⁷ %
YAO Jianjun	Founder of a Discretionary Trust Interest of Controlled Corporation and Beneficial owner ^{1 and 2}	986,332,549	63.76
CHEN Jianyu	Founder of a Discretionary Trust Interest of Controlled Corporation ^{1 and 3}	256,739,000	16.60
BI Lin	Founder of a Discretionary Trust Interest of Controlled Corporation ^{1 and 4}	127,470,000	8.24
LIN Jiabin	Founder of a Discretionary Trust Interest of Controlled Corporation ^{1 and 5}	44,890,500	2.90
LIN Zhibin	Founder of a Discretionary Trust Interest of Controlled Corporation ^{1 and 6}	44,890,500	2.90

Notes:

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

2 These interests represented:

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

(b) (i) 481,399,000 Shares held by YAO Holdings Limited;

(ii) 496,448,049 consideration shares to be allotted and issued to YAO Holdings Limited for the settlement of the consideration in relation to the acquisition of Sharelink under the Share Purchase Agreement in which YAO Holdings Limited was interested in under the SFO as at 30 June 2019. The Share Purchase Agreement was terminated on 12 July 2019 under the Termination Deed as disclosed in the announcements of the Company dated 12 and 24 July 2019 respectively, as a result of which the allotment and issuance of the consideration shares will no longer proceed and therefore YAO Holdings Limited is no longer interested in the 496,448,049 consideration shares.



OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

- (iii) The entire share capital of YAO Holdings Limited is wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. YAO (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. YAO and his family members. Mr. YAO (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in the Shares held and/or deemed to be interested in by YAO Holdings Limited pursuant to Part XV of the SFO.
- 3 The entire share capital of Fishchen Holdings Limited is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. CHEN Jianyu (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. CHEN and his family members. Mr. CHEN (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 256,739,000 Shares held by Fishchen Holdings Limited pursuant to Part XV of the SFO.
- 4 The entire share capital of BILIN Holdings Limited is wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. BI Lin (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. BI and his family members. Mr. BI (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 127,470,000 Shares held by BILIN Holdings Limited pursuant to Part XV of the SFO.
- 5 The entire share capital of LINT Holdings Limited is wholly owned by Supreme Top Global Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Lin Family Trust, which was established by Mr. LIN Jiabin (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. LIN Jiabin and his family members. Mr. LIN Jiabin (as founder of The Lin Family Trust) and Supreme Top Global Limited are taken to be interested in 44,890,500 Shares held by LINT Holdings Limited pursuant to Part XV of the SFO.
- 6 The entire share capital of LINCHEN Holdings Limited is wholly owned by Sheen Field Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Zhi Family Trust, which was established by Mr. LIN Zhibin on 13 August 2014 as a discretionary trust for the benefit of Mr. LIN and his family members. Mr. LIN (as founder of The Zhi Family Trust) and Sheen Field Limited are taken to be interested in 44,890,500 Shares held by LINCHEN Holdings Limited pursuant to Part XV of the SFO.
- 7 The percentage is calculated on the basis of 1,546,943,455 Shares in issue as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

PRE-IPO SHARE OPTION SCHEME

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

Pursuant to the Pre-IPO Share Option Scheme, the Company has granted options to subscribe for an aggregate of 105,570,000 Shares, which represented approximately 6.82% of the Shares in issue as at 30 June 2019, to senior management of the Group and other grantees. As at 30 June 2019, all the options granted pursuant to the Pre-IPO Share Option Scheme have been vested.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS



The table below sets out details of the outstanding options granted to senior management and other grantees under the Pre-IPO Share Option Scheme and movements during the six months ended 30 June 2019:

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Number of Shares				
					Granted on the date of grant	Outstanding as at 1/1/2019	Exercised during the six months ended 30/6/2019	Cancelled/Lapsed during the six months ended 30/6/2019	Outstanding as at 30/6/2019
Senior management									
Ms. ZHOU Yandan	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	4,510,000	-	-	-	-
Mr. CHEUNG Man Yu	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	6,430,000	4,822,500	-	-	4,822,500
Mr. DONG Ting	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	7,510,000	-	-	-	-
Ms. XU Yiqing	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	2,250,000	2,250,000	-	-	2,250,000
Mr. LIU Tao	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	1,130,000	-	-	-	-
Ms. WEI Yulan	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	360,000	237,000	-	-	237,000
Other Grantees									
Aggregate of 116 other grantees	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	83,380,000	30,920,000	-	(2,325,000) ⁽¹⁾	28,595,000
Total					105,570,000				35,904,500

Note:

- (1) 2,325,000 share options granted to other grantees lapsed immediately upon their resignation from the Company during the six months ended 30 June 2019.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

POST-IPO SHARE OPTION SCHEME

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

Pursuant to the Post-IPO Share Option Scheme, the Company has granted options to subscribe for (i) 3,000,000 Shares to a senior management on 10 June 2015; (ii) 1,000,000 Shares to an eligible participant on 5 July 2016; (iii) 10,160,000 Shares to senior management and other eligible participants on 27 March 2017; (iv) 5,000,000 Shares to a senior management and an eligible participant on 15 May 2017; and (v) 15,000,000 Shares to a senior management on 13 November 2017. As at 30 June 2019, the total number of options granted under the Post-IPO Share Option Scheme was 34,160,000, which represented approximately 2.21% of the Shares in issue as at 30 June 2019. As at 30 June 2019, 16,650,000 options granted under the Post-IPO Share Option Scheme, which represented approximately 1.08% and 1.08% of the Shares in issue as at 30 June 2019 and the date of this interim report respectively, were vested to the named grantees.

The table below sets out details of the outstanding options granted to the grantee under the Post-IPO Share Option Scheme and movements during the six months ended 30 June 2019:

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

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS



Name	Date of Grant	Vesting schedule	Option period	Exercise price	Closing price immediately before the date on which the options were granted	Number of Shares				
						Granted on the date of grant	Outstanding as at 1/1/2019	Exercised during the six months ended 30/6/2019	Cancelled/Lapsed during the six months ended 30/6/2019	Outstanding as at 30/6/2019
Other Grantees										
1 other grantee	5/7/2016	25% of options on 31 December 2016, 2017, 2018 and 2019 respectively	10 years from the date of grant	HK\$1.634	HK\$1.57	1,000,000 ⁽²⁾	1,000,000	-	-	1,000,000
9 other grantees	27/3/2017	25% of options on 31 December 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK\$1.256	HK\$1.24	3,560,000 ⁽³⁾	3,200,000	-	(250,000) ⁽⁶⁾	2,950,000
1 other grantee	15/5/2017	25% of options on 15 May 2018, 2019, 2020 and 2021 respectively	10 years from the date of grant	HK\$1.10	HK\$1.11	2,000,000 ⁽⁴⁾	2,000,000	-	(2,000,000) ⁽⁶⁾	-
Total						34,160,000				31,550,000

Notes:

- On 10 June 2015, 3,000,000 share options were granted to a senior management with exercise price of HK\$3.934 per Share, which represents the highest of: (i) the closing price of HK\$3.69 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 10 June 2015; (ii) the average of the closing price of HK\$3.934 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US\$0.0000001.
- On 5 July 2016, 1,000,000 share options were granted to an eligible participant with exercise price of HK\$1.634 per Share, which represents the highest of: (i) the closing price of HK\$1.42 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 5 July 2016; (ii) the average of the closing price of HK\$1.634 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US\$0.0000001.
- On 27 March 2017, 10,160,000 share options were granted to senior management and other eligible participants with exercise price of HK\$1.256 per Share, which represents the highest of: (i) the closing price of HK\$1.23 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 27 March 2017; (ii) the average of the closing price of HK\$1.256 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US\$0.0000001.
- On 15 May 2017, 5,000,000 share options were granted to a senior management and an eligible participant with exercise price of HK\$1.10 per Share, which represents the highest of: (i) the closing price of HK\$1.10 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 15 May 2017; (ii) the average of the closing price of HK\$1.096 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US\$0.0000001.
- On 13 November 2017, 15,000,000 share options were granted to a senior management with exercise price of HK\$1.026 per Share, which represents the highest of: (i) the closing price of HK\$0.99 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 13 November 2017; (ii) the average of the closing price of HK\$1.026 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US\$0.0000001.
- 2,250,000 share options granted to other grantees lapsed immediately upon their resignation from the Company during the six months ended 30 June 2019.



OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

SUMMARY OF THE SHARE OPTION SCHEMES

	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
1. Purpose	To provide an incentive for participants and to reward their performance with rights which allow them to subscribe for Shares and to own the Company in proportion with their contribution to the Company or any of its subsidiaries.	To provide an incentive or reward for the participants for their contribution or potential contribution to the Company and/or any of its subsidiaries.
2. Eligible Participants	Full-time employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries who, in the absolute discretion of the Board, have contributed or will contribute to the Group.	Full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries, and suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, has contributed or will contribute to the Group and whom the Board may in its absolute discretion select and think fit.
3. Maximum number of shares	<p>The total number of Shares subject to the Pre-IPO Share Option Scheme shall not exceed 105,570,000, i.e. 8.80% and 6.82% of the issued Shares as at 17 November 2014 and the date of this interim report respectively.</p> <p>No further option could be granted under the Pre-IPO Share Option Scheme.</p>	<p>The total number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme is 150,000,000 Shares which is equivalent to 12.50% and 9.70% of the issued Shares as at 17 November 2014 and the date of this interim report respectively.</p> <p>The maximum number of Shares that may be issued upon exercise of all outstanding options granted and yet to be granted under the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme and any other schemes must not in aggregate exceed 30% of the total number of Shares in issue from time to time.</p>

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS



	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
4. Maximum entitlement of each participant	The respective entitlement of each participant as granted on 17 November 2014.	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of offer.
5. Option period	Options may be exercised at any time or times during the period within which the grantee may exercise the options, unless otherwise specified in his offer document.	The Board may in its absolute discretion specify conditions or performance targets at the time of grant of options which shall be satisfied by the grantee before his options may be exercised.
6. Exercise price	HK\$0.55 per Share	Exercise price shall be higher of: (1) the official closing price of the Shares as stated on the Stock Exchange's daily quotations sheets on the date of offer of option; (2) average of the official closing prices of the Shares stated on the Stock Exchange's daily quotation sheets for the 5 business days before the date of offer and (3) nominal value of a Share.
7. Scheme period	It shall be valid and effective from 17 November 2014 to the 5th anniversary of the Listing Date (i.e. 5 December 2019) (both dates inclusive).	It shall be valid and effective from 17 November 2014 to the 10th anniversary of the Listing Rule (i.e. 5 December 2024) (both dates inclusive).

PRE-IPO RESTRICTED SHARE UNIT PLAN

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

Pursuant to the Pre-IPO RSU Plan, the maximum number of Shares underlying all grants of RSUs shall not exceed 13,850,000 Shares, equivalent to approximately 0.90% of the Shares in issue as at 30 June 2019, to the senior management of the Group and other grantees. 13,850,000 RSUs were vested in full to the named grantees on 1 April 2015. As at 30 June 2019, the Company no longer has any RSUs outstanding under the Pre-IPO RSU Plan.



OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

POST-IPO RESTRICTED SHARE UNIT PLAN

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

On 27 March 2017, the Company has conditionally granted an aggregate of 14,000,000 RSUs to certain eligible participants to obtain an aggregate of 14,000,000 new Shares pursuant to the Post-IPO RSU Plan. As at 30 June 2019, the Company no longer has any RSUs outstanding under the Post-IPO RSU Plan.

As approved by the Shareholders at the annual general meeting held on 27 May 2019, the maximum number of new Shares that may underlie awards of RSUs granted or to be granted by the Directors under the annual mandate of the Post-IPO RSU Plan (excluding the RSUs that have lapsed or been cancelled in accordance with the Post-IPO RSU Plan) is 31,000,000 Shares, which represented approximately 2.00% and 2.00% of the Shares in issue as at 30 June 2019 and the date of this interim report respectively.

RESTRICTED SHARE UNIT PLAN II

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

As approved by the Shareholders at the annual general meeting held on 27 May 2019, the maximum number of Shares underlying all grants of RSUs under the annual mandate of the RSU Plan II given to the Directors shall not exceed 45,000,000 Shares, which represented approximately 2.91% and 2.91% of the Shares in issue as at 30 June 2019 and the date of this interim report respectively. No RSU was granted under the RSU Plan II from the date of its adoption up to the date of this interim report.

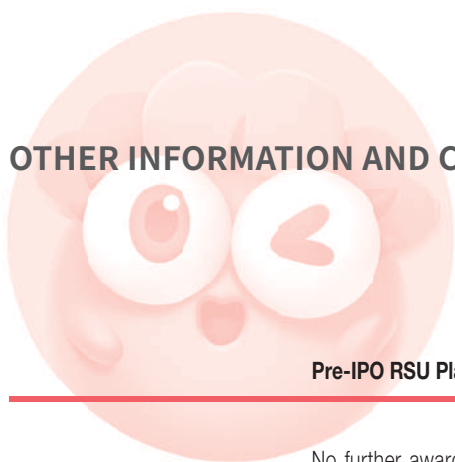
OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS



SUMMARY OF THE RESTRICTED SHARE UNIT PLANS

	Pre-IPO RSU Plan	Post-IPO RSU Plan	RSU Plan II
1. Purpose	To reward the participants for their contribution to the success of the Group and to provide incentives to them to further contribute to the Group, and to attract suitable personnel for further development to the Group.	Same as the Pre-IPO RSU Plan	Same as the Pre-IPO RSU Plan
2. Eligible Participants	<ul style="list-style-type: none"> (i) Full-time employees or officers (including executive, non-executive and independent non-executive Directors) of the Company; (ii) Full-time employees of any subsidiaries and the PRC Operating Entities; (iii) Suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, have contributed or will contribute to the Group; and (iv) Any other person who, in the absolute discretion of the Board, has contributed or will contribute to the Group. 	Same as the Pre-IPO RSU Plan	Same as the Pre-IPO RSU Plan
3. Maximum number of shares	The total number of Shares subject to the Pre-IPO RSU Plan shall not exceed 13,850,000 Shares, i.e. 1.15% and 0.90% of the issued Shares as at 17 November 2014 and the date of this interim report respectively.	The total number of Shares subject to the Post-IPO RSU Plan shall not exceed 45,000,000 Shares, i.e. 3.75% and 2.91% of the issued Shares as at 17 November 2014 and the date of this interim report respectively.	No Award shall be granted pursuant to the RSU Plan II if as a result of such grant the aggregate number of Shares (being in a board lot or an integral multiple thereof) (or, where cash is awarded in lieu of Shares, the aggregate number of Shares as are equivalent to the amount of cash so awarded) underlying all grants made pursuant to the RSU Plan II (excluding Awards that have lapsed or been cancelled in accordance with the rules of the Post-IPO RSU Plan II) will exceed 3% of the total issued Shares at the relevant date of Shareholders' approval (i.e. 28 May 2018).

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS



	Pre-IPO RSU Plan	Post-IPO RSU Plan	RSU Plan II
	No further award of RSUs could be granted under the Pre-IPO RSU Plan.	If the limit of the Post-IPO RSU Plan is refreshed with prior approval of the Shareholders, the total number of Shares underlying the awards shall not exceed 3% of the number of issued Shares as at the date of approval of the refreshed limit.	If the limit of the RSU Plan is refreshed with prior approval of the Shareholders, the total number of Shares underlying the awards shall not exceed 3% of the number of issued Shares as at the date of approval of the refreshed limit.
4. Term of the RSU Plan	Valid and effective for a period of 5 years from 17 November 2014.	Same as the Pre-IPO RSU Plan	Valid and effective for a period of 10 years commencing from 28 May 2018.
5. Grant of Award	The Board may grant an award of RSUs any time during the term of the respective RSU Plan on terms and conditions specified by it.	Same as the Pre-IPO RSU Plan	Same as the Pre-IPO RSU Plan
6. Rights attached	An award of RSUs does not carry any right to vote at general meetings of the Company. No grantee shall enjoy any right of a shareholder by virtue of the grant of award unless and until the Shares underlying the award are allotted and issued or transferred (as the case may be) to the grantee. Notwithstanding the foregoing, the Board may specify in its sole discretion that a grantee may enjoy rights to cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the award.	Same as the Pre-IPO RSU Plan	Same as the Pre-IPO RSU Plan

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS



INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued Shares.

Name of Shareholder	Capacity	Number of ordinary Shares held (long position)	Approximate percentage of shareholding ⁹ %
TMF (Cayman) Ltd. ¹	Trustee of the family trusts	1,521,106,004	98.33
YAO Holdings Limited ²	Beneficial owner	977,847,049	63.21
Jolly Spring International Limited ²	Interest in a controlled corporation	977,847,049	63.21
Mr. YAO Jianjun ³	Founder of a discretionary trust Interest in a controlled corporation and Beneficial owner	986,332,549	63.76
Fishchen Holdings Limited ⁴	Beneficial owner	256,739,000	16.60
Honour Gate Limited ⁴	Interest in a controlled corporation	256,739,000	16.60
Mr. CHEN Jianyu ⁴	Founder of a discretionary trust Interest in a controlled corporation	256,739,000	16.60
BILIN Holdings Limited ⁵	Beneficial owner	127,470,000	8.24
Rayoon Limited ⁵	Interest in a controlled corporation	127,470,000	8.24
Mr. BI Lin ⁵	Founder of a discretionary trust Interest in a controlled corporation	127,470,000	8.24
Longling Capital Ltd ⁶	Beneficial owner	204,602,724	13.23
Mr. CAI Wensheng ⁶	Interest in a controlled corporation	204,602,724	13.23
ADVANCED ACCESS INTERNATIONAL LIMITED ⁷	Beneficial owner	90,270,722	5.84
Mr. LI Weiping ^{7 and 8}	Beneficial owner, interest in a controlled corporation, interest of the spouse	117,417,122	7.59
Ms. ZHOU Chunlan ^{7 and 8}	Beneficial owner, interest in a controlled corporation, interest of the spouse	117,417,122	7.59

Notes:

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



OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

3. These interests represented:
- (a) 8,485,500 Shares held directly by Mr. YAO; and
 - (b)
 - (i) 481,399,000 Shares held by YAO Holdings Limited;
 - (ii) 496,448,049 consideration shares to be allotted and issued to YAO Holdings Limited for the settlement of the consideration in relation to the acquisition of Sharelink under the Share Purchase Agreement in which YAO Holdings Limited was interested in under the SFO as at 30 June 2019. The Share Purchase Agreement was terminated on 12 July 2019 under the Termination Deed as disclosed in the announcements of the Company dated 12 and 24 July 2019 respectively, as a result of which the allotment and issuance of the consideration shares will no longer proceed and therefore YAO Holdings Limited is no longer interested in the 496,448,049 consideration shares.
 - (iii) The entire share capital of YAO Holdings Limited is wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. YAO (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. YAO and his family members. Mr. YAO (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in the Shares and/or deemed to be interested in by YAO Holdings Limited pursuant to Part XV of the SFO.
4. The entire share capital of Fishchen Holdings Limited is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. CHEN Jianyu (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. CHEN and his family members. Mr. CHEN (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 256,739,000 Shares held by Fishchen Holdings Limited pursuant to Part XV of the SFO.
5. The entire share capital of BILIN Holdings Limited is wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. BI Lin (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. BI and his family members. Mr. BI (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 127,470,000 Shares held by BILIN Holdings Limited pursuant to Part XV of the SFO.
6. These interests represented 204,602,724 consideration shares to be allotted and issued to Longling Capital Ltd. (a wholly-owned company of Mr. Cai Wensheng) in relation to the acquisition of Sharelink under the Share Purchase Agreement, in which Longling Capital Ltd. was interested in under the SFO as at 30 June 2019. The Share Purchase Agreement was terminated on 12 July 2019 under the Termination Deed as disclosed in the announcements of the Company dated 12 and 24 July 2019 respectively, as a result of which the allotment and issuance of the consideration shares will no longer proceed and therefore Longling Capital Ltd. is no longer interested in the 204,602,724 consideration shares.
7. These interests represented:
- (a) 90,270,722 consideration shares to be allotted and issued to ADVANCED ACCESS INTERNATIONAL LIMITED (a company wholly owned by Mr. LI Weiping) in relation to the acquisition of Sharelink under the Share Purchase Agreement, in which ADVANCED ACCESS INTERNATIONAL LIMITED was interested in under the SFO as at 30 June 2019. The Share Purchase Agreement was terminated on 12 July 2019 under the Termination Deed as disclosed in the announcements of the Company dated 12 and 24 July 2019 respectively, as a result of which the allotment and issuance of the consideration shares will no longer proceed and therefore ADVANCED ACCESS INTERNATIONAL LIMITED is no longer interested in the 90,270,722 consideration shares.
 - (b) 27,146,400 Shares in which Ms. ZHOU Chunlan (the spouse of Mr. LI Weiping) was and/or deemed to be interested in.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS



8. These interests represented:
- (a) 57,000 Shares beneficially owned by Ms. Zhou Chunlan;
 - (b) 27,089,400 consideration shares to be issued and allotted to BILLION CHAMPION ENTERPRISES CORPORATION 兆安企業有限公司 (a company wholly owned by Ms. ZHOU Chunlan) in relation to the acquisition of Sharelink under the Share Purchase Agreement, in which BILLION CHAMPION ENTERPRISES CORPORATION was interested in under the SFO as at 30 June 2019. The Share Purchase Agreement was terminated on 12 July 2019 under the Termination Deed as disclosed in the announcements of the Company dated 12 and 24 July 2019 respectively, as a result of which the allotment and issuance of the consideration shares will no longer proceed and therefore BILLION CHAMPION ENTERPRISES CORPORATION is no longer interested in the 27,089,400 consideration shares.
 - (c) 90,270,722 Shares in which Mr. LI Weiping (the spouse of Ms. ZHOU Chunlan) was and/or deemed to be interested in.
9. The percentage is calculated on the basis of 1,546,943,455 Shares in issue as at 30 June 2019.

Other than as disclosed above, as at 30 June 2019, the Directors have not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

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

During the six months ended 30 June 2019, neither the Company, its subsidiaries nor any of the PRC Operating Entities has purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF THE PUBLIC FLOAT

Based on the information publicly available and to the best of the Directors' knowledge, information and belief on the date of this interim report, the Company has always maintained a sufficient public float as required under the Listing Rules throughout the six months ended 30 June 2019 and up to the date of this interim report.



OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

Compliance with the CG Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. Save as disclosed herein below, the Company has complied with all applicable code provisions under the CG Code during six months ended 30 June 2019.

Code provision A.2.1 of the CG Code stipulates the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. YAO Jianjun serves as the Chairman and Chief Executive Officer of the Company. In view of Mr. YAO Jianjun's extensive experience in the industry, personal profile and role in the Group and its historical development, the Board believes that it is appropriate and beneficial to the business prospects of the Group that Mr. YAO Jianjun acts as both Chairman and Chief Executive Officer. Furthermore, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in an experienced and qualified person such as Mr. YAO Jianjun would provide strong and consistent leadership, allowing the Company to more effectively plan and implement business decisions and strategies. Besides, all major decisions have been made in consultation with members of the Board, which comprises experienced and high caliber individuals, appropriate Board committees, as well as the senior management team. The Board is, therefore, of the view that there are adequate checks and balances in place. Nevertheless, the Board will continue to monitor and review the Company's current structure and make necessary changes at an appropriate time.

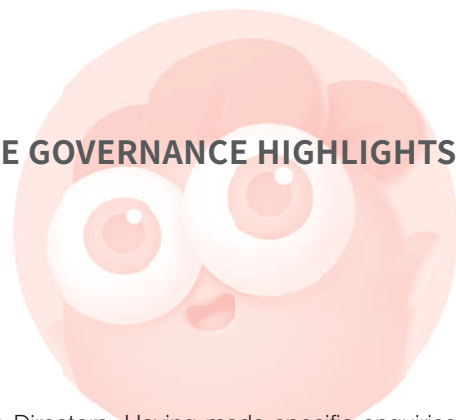
The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code, and maintain a high standard of corporate governance practices of the Company.

The Board

The Board currently comprises eight Directors, including five Executive Directors, viz, Mr. YAO Jianjun, Mr. CHEN Jianyu, Mr. BI Lin, Mr. LIN Jiabin and Mr. LIN Zhibin; and three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise, viz, Ms. LIU Qianli, Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew.

The Corporate Information on pages 2 to 3 of this interim report includes changes up to the date of this interim report.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS



Compliance with the Model Code

The Company has adopted the Model Code for securities transactions by the Directors. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code throughout the six months ended 30 June 2019.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the six months ended 30 June 2019.

Review of Interim Results

The Audit Committee, comprising three Independent Non-executive Directors, has reviewed the unaudited interim results of the Group for the six months ended 30 June 2019 and considered that they were prepared in compliance with the relevant accounting standards, and that the Company has made appropriate disclosure thereof.

The unaudited interim results of the Group for the six months ended 30 June 2019 have been reviewed by Ernst & Young, the external auditors of the Company.

Change in Directors' Biographical Details under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in Directors' biographical details since the date of the 2018 annual report of the Company are as follows:

Mr. BI Lin (畢林), an Executive Director, has been acting as director of Xiamen 8384 Information Technology Company Limited (廈門八三三四信息科技有限公同) which is a subsidiary of the Company since 22 February 2019.

Save as disclosed above, there is no other change in the Directors' biographical details which is required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules since the date of the 2018 annual report of the Company and up to the date of this interim report.

INDEPENDENT REVIEW REPORT



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To the board of directors of Feiyu Technology International Company Ltd.

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim financial information set out on pages 43 to 76, which comprises the interim condensed consolidated statement of financial position of Feiyu Technology International Company Ltd. (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2019 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants
Hong Kong

28 August 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
REVENUE	4	41,661	45,778
Cost of sales		(17,061)	(27,407)
Gross profit		24,600	18,371
Other income and gains	4	10,216	13,231
Selling and distribution expenses		(4,965)	(4,697)
Administrative expenses		(27,617)	(25,450)
Research and development costs		(35,186)	(40,443)
Finance costs		(1,604)	(746)
Other expenses	5	(212)	(364)
Share of losses of associates	13	(860)	(718)
LOSS BEFORE TAX	6	(35,628)	(40,816)
Income tax expense	7	(2,193)	(1,870)
LOSS FOR THE PERIOD		(37,821)	(42,686)
Attributable to:			
Owners of the parent		(33,420)	(37,442)
Non-controlling interests		(4,401)	(5,244)
		(37,821)	(42,686)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9	RMB(0.02)	RMB(0.02)
– Basic & Diluted			

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
LOSS FOR THE PERIOD	(37,821)	(42,686)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income may be reclassified to profit or loss in subsequent periods:		
Debt investments at fair value through other comprehensive income:		
Changes in fair value	2,756	(470)
Reclassification adjustments for gains included in the consolidated statement of profit or loss	-	(337)
Exchange differences on translation of foreign operations	693	3,368
Other comprehensive income will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	8,239	32,285
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	11,688	34,846
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(26,133)	(7,840)
Attributable to:		
Owners of the parent	(21,724)	(2,570)
Non-controlling interests	(4,409)	(5,270)
	(26,133)	(7,840)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	78,450	60,680
Right-of-use assets	2.2	107,890	–
Prepaid land lease payments		–	100,797
Goodwill	11	20,121	20,121
Other intangible assets	12	3,267	3,642
Investment in associates	13	28,476	36,067
Prepayments, other receivables and other assets	15	17,866	17,476
Equity investments designated at fair value through other comprehensive income	16	18,918	28,081
Debt investments at fair value through profit or loss	16	184,828	196,194
Debt investments at fair value through other comprehensive income	16	27,901	25,076
Deferred tax assets		2,886	4,145
Total non-current assets		490,603	492,279
CURRENT ASSETS			
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	14	21,966	21,980
Prepayments, other receivables and other assets	15	41,798	41,777
Equity investments designated at fair value through other comprehensive income	16	–	108,500
Cash and cash equivalents	17	157,055	104,922
Other current assets		9,636	7,154
Total current assets		230,455	284,333
CURRENT LIABILITIES			
Other payables and accruals	18	55,352	85,168
Interest-bearing bank and other borrowings	19	60,986	83,694
Tax payable		2,618	2,664
Contract liabilities	20	8,745	5,072
Deferred revenue		–	54
Total current liabilities		127,701	176,652
NET CURRENT ASSETS		102,754	107,681
TOTAL ASSETS LESS CURRENT LIABILITIES		593,357	599,960

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		593,357	599,960
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	19	36,302	9,340
Deferred tax liabilities		619	8,601
Contract liabilities	20	3,485	4,045
Total non-current liabilities		40,406	21,986
Net assets		552,951	577,974
EQUITY			
Equity attributable to owners of the parent			
Share capital	21	1	1
Share premium	21	498,453	498,453
Reserves		67,439	88,053
		565,893	586,507
Non-controlling interests		(12,942)	(8,533)
Total equity		552,951	577,974

YAO Jianjun
Director

CHEN Jianyu
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the parent										
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Equity-settled share-based payment reserve RMB'000	Other reserve RMB'000	Financial assets revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity
At 1 January 2019	1	498,453	15,995*	146,554*	349,089*	36,418*	32,910*	(492,913)*	586,507	(8,533)	577,974
Loss for the period	-	-	-	-	-	-	-	(33,420)	(33,420)	(4,401)	(37,821)
Other comprehensive loss for the period:											
Changes in fair value of financial assets at fair value through other comprehensive income with gains or losses may be recycled	-	-	-	-	-	2,756	-	-	2,756	-	2,756
Changes in value of financial assets at fair value through other comprehensive income with gains or losses will not be recycled	-	-	-	-	-	8,239	-	-	8,239	-	8,239
Exchange differences on translation of foreign operations	-	-	-	-	-	-	701	-	701	(8)	693
Total comprehensive loss for the period	-	-	-	-	-	10,995	701	(33,420)	(21,724)	(4,409)	(26,133)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	-	-	-	-	-	(52,060)	-	52,060	-	-	-
Equity-settled share-based payments expenses	-	-	-	1,110	-	-	-	-	1,110	-	1,110
At 30 June 2019 (unaudited)	1	498,453	15,995*	147,664*	349,089*	(4,647)*	33,611*	(474,273)*	565,893	(12,942)	552,951

* These reserve accounts comprise the consolidated reserves of RMB67,439,000 (For the year ended 31 December 2018: RMB88,053,000) in the consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2019

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Equity-settled share-based payment reserve RMB'000	Other reserve RMB'000	Financial assets revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Treasury shares RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017	1	490,934	13,940*	150,155*	352,760*	(6,779)*	20,559*	(380,612)*	(2,906)	638,052	(2,364)	635,688
Adoption of IFRS 9	-	-	-	-	-	24,480	-	(7,493)	-	16,987	-	16,987
At 1 January 2018	1	490,934	13,940	150,155	352,760	17,701	20,559	(388,105)	(2,906)	655,039	(2,364)	652,675
Loss for the period	-	-	-	-	-	-	-	(37,442)	-	(37,442)	(5,244)	(42,686)
Other comprehensive loss for the period:												
Changes in fair value of financial assets at fair value through other comprehensive income with gains or losses may be recycled	-	-	-	-	-	(807)	-	-	-	(807)	-	(807)
Changes in value of financial assets at fair value through other comprehensive income with gains or losses will not be recycled	-	-	-	-	-	32,285	-	-	-	32,285	-	32,285
Exchange differences on translation of foreign operations	-	-	-	-	-	-	3,394	-	-	3,394	(26)	3,368
Total comprehensive loss for the period	-	-	-	-	-	31,478	3,394	(37,442)	-	(2,570)	(5,270)	(7,840)
Distribution to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	2,450	2,450
Repurchase of shares	-	-	-	-	-	-	-	-	(7,060)	(7,060)	-	(7,060)
Cancellation of shares	-	(9,966)	-	-	-	-	-	-	9,966	-	-	-
Equity-settled share-based payments expenses	-	-	-	4,232	-	-	-	-	-	4,232	-	4,232
Exercise of share option	-	9,759	-	(6,946)	-	-	-	-	-	2,813	-	2,813
At 30 June 2018 (unaudited)	1	490,727	13,940*	147,441*	352,760*	49,179*	23,953*	(425,547)*	-	652,454	(5,184)	647,270

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months end 30 June

	Notes	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before tax		(35,628)	(40,816)
Adjustments for:			
Finance costs		1,604	746
Interest income	4	(2,205)	(3,039)
Dividend income from financial assets at fair value through profit or loss	4	-	(605)
Other compensation expenses	6	-	2,450
Depreciation of property, plant and equipment	4	2,132	2,584
Depreciation of right-of-use assets		1,225	-
Amortisation of other intangible assets	12	375	115
(Gain)/loss on disposal of items of property, plant and equipment	10	(715)	14
Equity-settled share-based payment expenses		1,110	4,232
Fair value gains, net:			
Financial assets		(2,619)	(2,541)
Share of losses of associates	13	860	718
Impairment of other receivable		1,605	-
		(32,256)	(36,142)
Decrease/(increase) in accounts receivable and receivables due from third-party game distribution platforms and payment channels		14	(214)
Increase in prepayments, other receivables and other assets		(5,389)	(6,070)
Decrease in other payables and accruals		(17,113)	(11,991)
(Increase)/decrease in other current assets		(2,482)	76
Increase/(decrease) in deferred revenue/contract liabilities		3,059	(4,132)
Cash used in operations		(54,167)	(58,473)
Interest paid		(388)	(11)
Income tax paid		(1,342)	(1,595)
Net cash flows used in operating activities		(55,897)	(60,079)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months end 30 June

	Notes	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received		2,823	2,901
Dividends received from financial assets at fair value through profit or loss	4	–	605
Purchases of items of property, plant and equipment		(22,933)	(17,871)
Proceeds from disposal of items of property, plant and equipment		792	6
Purchases of financial assets		(61,145)	(83,409)
Proceeds from disposal of financial assets		193,062	113,217
Investment in associates		(2,443)	(12,967)
Dividends received from an associate		–	200
Deposit transferred to an account in a domestic securities company		–	(6)
Net cash flows from investing activities		110,156	2,676
CASH FLOWS FROM FINANCING ACTIVITIES:			
Addition of bank loans		2,077,146	1,864,519
Repayment of bank loans		(2,079,177)	(1,863,995)
Repurchase of shares		–	(7,060)
Principal portion of lease payments		(1,336)	–
Net cash flows used in financing activities		(3,367)	(6,536)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		104,922	155,397
Effect of foreign exchange rate changes, net		1,241	3,854
Cash and cash equivalents at end of period		157,055	95,312
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	17	157,055	95,312

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

1. CORPORATE INFORMATION

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

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 BASIS OF PREPARATION

The interim condensed financial information for the six months ended 30 June 2019 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards (“IFRSs”) effective as of 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group’s interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

IFRS 16 replaces IAS 17 *Leases*, IFRIC Interpretation 4 *Determining whether an Arrangement contains a Lease*, SIC Interpretation 15 *Operating Leases – Incentives* and SIC Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC Interpretation 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC Interpretation 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019



2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of nil that were reclassified from property, plant and equipment.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	104,574
Decrease in prepaid land lease payments	(100,797)
Decrease in prepayments, other receivables and other assets	(2,755)
Increase in total assets	1,022
Liabilities	
Increase in interest-bearing bank and other borrowings	1,022
Increase in total liabilities	1,022
Decrease in retained earnings	–

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	4,905
Weighted average incremental borrowing rate as at 1 January 2019	5.047%
Discounted operating lease commitments as at 1 January 2019	4,648
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	3,626
Lease liabilities as at 1 January 2019	1,022

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".



2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Summary of new accounting policies (continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of property due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within 'interest-bearing bank and other borrowings'), and the movement during the period are as follow:

	Right-of-use assets		
	Properties	Prepaid land lease payments	Lease liabilities
	RMB'000	RMB'000	RMB'000
As at 1 January 2019	1,022	103,552	1,022
Additions	5,919	-	5,919
Depreciation charge	(1,225)	(1,378)	-
Interest expense	-	-	350
Payments	-	-	(1,336)
As at 30 June 2019	5,716	102,174	5,955

The Group recognised rental expenses from short-term leases of RMB3,407,000 and rental income from subleasing right-of-use assets of RMB143,000 for the six months ended 30 June 2019.

All the other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. OPERATING SEGMENT INFORMATION

Information about geographical areas

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

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue for the six months ended 30 June 2019 (for the six months ended 30 June 2018:10%, RMB4,610,000).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019



4. REVENUE, OTHER INCOME AND GAINS

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

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue		
Online web and mobile games	27,648	37,644
Single-player games	2,354	1,907
Game operations	30,002	39,551
– Gross basis	3,160	5,071
– Net basis	26,842	34,480
Online game distribution	2,996	530
Licensing income	3,322	3,225
Advertising revenue	4,586	2,198
Sale of goods	5	5
Technical service income	750	269
	41,661	45,778
Timing of revenue recognition		
Services transferred over time	3,322	3,225
Services and goods transferred at a point of time	38,339	42,553
Total revenue from contracts with customers	41,661	45,778
Other income		
Government grants	4,315	6,966
Interest income	2,205	3,039
	6,520	10,005
Gains		
Fair value gains, net:		
Financial assets	2,619	2,541
Gain on disposal of items of property, plant and equipment	715	–
Dividend income from debt investment		
at fair value through profit or loss	–	605
Other gains	362	80
	10,216	13,231

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

5. OTHER EXPENSES

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Foreign exchange loss	186	75
Loss on disposal of items of property, plant and equipment	–	14
Others	26	275
	212	364

6. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Channel costs	831	1,488
Rental fee (including servers)	5,462	5,472
Depreciation	2,132	2,584
Amortisation of other intangible assets	375	115
Advertising expenses	3,668	2,162
Employee benefit expenses (excluding directors' and chief executive's remuneration)		
Salaries and wages	40,614	44,824
Pension scheme contributions	3,715	6,484
Share-based payment expenses	1,110	4,232
Other compensation expenses	–	2,450
	45,439	57,990
Dividend income from debt investment at fair value through profit or loss	–	(605)
Interest income	(2,205)	(3,039)
Government grants	(4,315)	(6,966)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019



7. INCOME TAX EXPENSE

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Under the relevant income tax law, the PRC subsidiaries are subject to income tax at a statutory rate of 25% for the year on their respective taxable income, except for Xiamen Guangling Investment Management Co., Ltd. (“Xiamen Guangling”) and Xiamen Feixin Internet Technology Co., Ltd. (“Xiamen Feixin”) which were certified as Software Enterprises and are exempted from income tax for two years starting from the first year in which they generate taxable profit, followed by a 50% reduction for the next three years. 2015 and 2016 are the first profitable years for Xiamen Guangling and Xiamen Feixin, respectively. Xiamen Yidou Internet Technology Co., Ltd. (“Xiamen Yidou”), Xiamen Youli Information Technology Co., Ltd. (“Xiamen Youli”) and Beijing Kailuo Tianxia Technology Co., Ltd. (“Kailuo Tianxia”) are subject to 15% preferential tax rate for High and New Technology Enterprises.

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Current tax	1,767	1,744
Deferred tax	426	126
Total tax charge for the period	2,193	1,870

8. DIVIDEND

The Board does not recommend the payment of an interim dividend to the ordinary equity holders of the Company for the six months ended 30 June 2019 (for the six months ended 30 June 2018: Nil).

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,546,943,455 (for the six months ended 30 June 2018: 1,541,329,245) in issue during the period, as adjusted to reflect the share issuance, repurchase and treasury shares on hand during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2019 and 2018 in respect of a dilution as the impact of the share option outstanding had an anti-dilution effect in the basic loss per share amounts presented.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with a cost of RMB19,979,000 (for the six months ended 30 June 2018: RMB19,249,000. Depreciation for items of property, plant and equipment was RMB2,132,000 during the period (for the six months ended 30 June 2018: RMB2,584,000).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Assets with a net book value of RMB77,000 were disposed of by the Group during the six months ended 30 June 2019 (for the six months ended 30 June 2018: RMB20,000), resulting in a net gain on disposal of RMB715,000 (for the six months ended 30 June 2018: net loss RMB14,000).

11. GOODWILL

	RMB'000
At 30 June 2019 and 31 December 2018:	
Cost	432,278
Accumulated impairment	(412,157)
Net carrying amount	20,121

12. OTHER INTANGIBLE ASSETS

During the six months ended 30 June 2019, the Group did not acquire any intangible asset (for the six months ended 30 June 2018: Nil). Amortisation for intangible assets were RMB375,000 during the period (for the six months ended 30 June 2018: RMB115,000).

No intangible asset was disposed of for the six months ended 30 June 2019 and 2018.

13. INVESTMENT IN ASSOCIATES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Shares of net assets	48	823
Goodwill on acquisition	28,428	35,244
	28,476	36,067

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	30 June 2019 RMB'000 (Unaudited)	30 June 2018 RMB'000 (Unaudited)
Share of the associates' loss for the period	(860)	(718)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

14. ACCOUNTS RECEIVABLE AND RECEIVABLES DUE FROM THIRD-PARTY GAME DISTRIBUTION PLATFORMS AND PAYMENT CHANNELS

The Group's credit terms with customers generally range from one month to four months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancement over its receivable balances. These receivables are non-interest-bearing.

An ageing analysis of the receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	21,966	21,980

15. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Non-current		
Prepayments	13,281	14,697
Prepaid land lease payments related deposits	-	1,605
Other receivables	4,585	1,174
	17,866	17,476
Current		
Prepayments	9,880	11,786
Deposits	11,566	11,517
Other receivables	20,352	18,474
	41,798	41,777

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

16. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND DEBT INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

		30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Debt investments at fair value through other comprehensive income			
Straight bonds	(1)	27,901	25,076
Equity investments designated at fair value through other comprehensive income			
Unlisted equity investments, at fair value	(2)		
Non-current		18,918	28,081
Current		–	108,500
		18,918	136,581
Debt investments at fair value through profit or loss			
Unlisted debt investment, at fair value	(3)	38,482	44,045
Convertible bonds	(4)	14,182	13,738
Convertible preferred shares	(5)	35,906	43,588
Investment in life insurance policies	(6)	96,258	94,823
		184,828	196,194

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019



16. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND DEBT INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

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

On 23 June 2017, the Group invested in a bond issued by Huarong Finance 2017 Co., Ltd. with a nominal amount of US\$3,000,000 at a consideration of US\$3,142,000 (equivalent to approximately RMB21.4 million). The bond has a coupon interest rate of 4.75% per annum with a maturity period of 10 years.

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

Debt investments at fair value through other comprehensive income are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

- (2) The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

In January 2019, the Group sold its equity interest in Ewan Shanghai Network Technology Co., Ltd. as this investment no longer coincided with Group's investment strategy. The fair value on the date of disposal was RMB108,500,000.

- (3) In 2019, Apollo Capital L.P. disposed all of the underlying investment under partnership agreement and the subscription agreement signed by the Group and returned the remaining part of investment principle and related gains of RMB16,440,000 in total to the Group in June 2019.

- (4) On 6 April 2015, the Group invested in a perpetual convertible bond issued by Standard Chartered PLC with a nominal amount of US\$8,000,000 and a coupon interest rate of 6.5% per annum at a consideration of US\$8,101,000 (equivalent to approximately RMB49.7 million). In July and August 2016, the Group sold part of the above perpetual convertible bond with a nominal amount of US\$5,000,000 for a consideration of US\$4,788,000 (equivalent to approximately RMB31.9 million). On 31 January 2018, the Group sold another part of the above perpetual convertible bond with a nominal amount of US\$1,000,000 for a consideration of US\$1,056,000 (equivalent to approximately RMB6.7 million).

The coupon interest can be cancelled any time at the issuer's sole discretion. The convertible bond shall be converted into ordinary shares of the issuer if the issuer failed to meet certain covenants.

Debt investments at fair value through profit or loss is that which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

16. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND DEBT INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

- (5) On 18 February 2015, the Group invested in convertible preferred shares issued by Industrial and Commercial Bank of China Limited with a nominal amount of US\$5,000,000 at a consideration of US\$5,225,000 (equivalent to approximately RMB32.0 million). The convertible preferred shares have a non-cumulative dividend of 6% per annum.

On 30 September 2016, the Group invested in convertible preferred shares issued by China Cinda Asset Management Co., Ltd. with a nominal amount of US\$1,500,000 at a consideration of US\$1,504,000 (equivalent to approximately RMB10.0 million). The convertible preferred shares have a non-cumulative dividend of 4.45% per annum. On 4 January 2019, the Group sold the above convertible preferred shares with a nominal amount of US\$1,500,000 at a consideration of US\$1,343,000 (equivalent to approximately RMB9.2 million).

The declaration of dividend is at the issuer's sole discretion. The convertible preferred shares shall be converted into ordinary shares of the issuer if the issuer failed to meet certain covenants. The Group is not entitled to any voting right by holding such convertible preferred shares unless the dividend has not been paid in full for the most recent two dividend periods or a total of three dividend payments have not been paid in full.

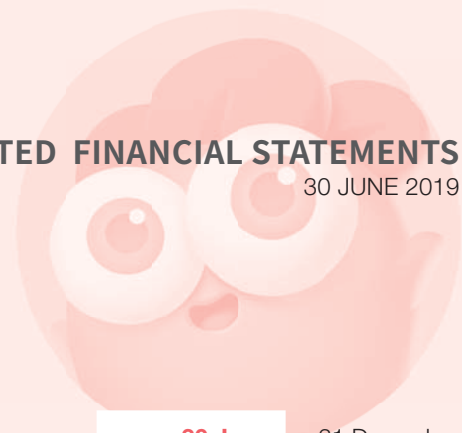
Debt investments at fair value through profit or loss are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

- (6) In August 2015, the Group entered into life insurance policies with an insurance company to insure certain members of the key management of the Group. Under these policies, the beneficiary and policy holder is the Company. The Company has paid out the total insurance premium with an aggregate amount of approximately US\$14.5 million (equivalent to approximately RMB89.0 million) at the inception of the insurance. The Company can terminate the policy at any time and receive back based on the surrender value of the contract at the date of withdrawal, which is determined by the insurance premium of each insurance policy plus the accumulated interest earned and minus the insurance costs ("Surrender Value"). In addition, if the withdrawal is made between the first and tenth policy years, there is a special amount of surrender charge by the insurance company. The insurance company will declare a guaranteed interest of 3.9% per annum plus a premium determined by the insurance company on the outstanding Surrender Value of the contract for the first three years. Commencing from the fourth year, the guaranteed interest will be reduced to 2% per annum.

As at 30 June 2019, the insurance premium was pledged to a bank to secure a short term advance facility granted to the Group (note 19).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019



17. CASH AND CASH EQUIVALENTS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Cash and cash equivalents	157,055	104,922
Denominated in HK\$	4,573	34,085
Denominated in RMB	144,529	63,101
Denominated in US\$	7,953	7,736
Cash and cash equivalents	157,055	104,922

RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

18. OTHER PAYABLES AND ACCRUALS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Salaries and welfare payables	28,209	41,771
Other payables and accruals	25,999	41,942
Other tax payables	988	1,389
Advance from customers	156	66
	55,352	85,168

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

19. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 30 June 2019			As at 31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans-secured	4.178	Weekly renewable	58,543	4.413	Weekly renewable	57,408
Bank loans-secured	-	-	-	2.683	Weekly renewable	26,286
Lease liabilities	5.047	2019-2020	2,443	-	-	-
			60,986			83,694
Non-current						
Other-secured bank loans	5.047	2020	9,340	5.047	2020	9,340
	5.047	2021	9,120	-	-	-
	5.047	2022	7,960	-	-	-
	5.047	2023	6,370	-	-	-
Lease liabilities	5.047	2020-2022	3,512	-	-	-
			36,302			9,340
			97,288			93,034

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Analysed into:		
Bank and other borrowings repayable:		
Within one year or on demand	60,986	83,694
In the second year	36,302	9,340

Notes:

- The Group's short term loan facility amounted to US\$20,000,000 (2018: US\$20,000,000), of which HK\$66,506,000 (equivalent to approximately US\$8.5 million) (2018: HK\$95,519,000) had been drawn as at the end of the reporting period, and is secured by the Group's investment in the insurance policies (note 16). The period of the loan is seven days and renewable on a weekly basis.
- The Group's long term loan facility amounted to RMB120,000,000 (2018: RMB120,000,000), and is secured by the Group's right-of-use assets. The loan will be repaid year by year in accordance with the contracts.
- The Group's lease liabilities amounted to RMB5,955,000 was provided pursuant to IFRS16.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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20. CONTRACT LIABILITIES

Details of contract liabilities as at 30 June 2019 and 31 December 2018 are as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
<i>Short-term advances received</i>		
Online web and mobile games	7,816	1,330
Licensing income	929	3,742
<i>Long-term advances received</i>		
Online web and mobile games	65	124
Licensing income	3,420	3,921
Total contract liabilities	12,230	9,117

Contract liabilities mainly represented prepaid unconsumed virtual currencies, virtual items from players and upfront revenue sharing and remaining upfront licenses fee for online game services from game distribution platforms, for which the related services had not been rendered as at 30 June 2019.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

21. SHARE CAPITAL

Shares

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Issued and fully paid or credited as fully paid:		
Ordinary shares of US\$0.0000001 each	1,546,943,455	1,546,943,455
Equivalent to RMB'000	1	1

22. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for:		
Construction in progress	60,292	72,021
Game operation	1,015	3,247
Capital contributions payable to unlisted equity investments	927	1,855
	62,234	77,123

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019



23. RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	Relationship
Xiamen Chenxing Interactive Technology Co., Ltd. ("Xiamen Chenxing")	Associate
Shanghai Kamao Network Technology Co., Ltd. ("Shanghai Kamao")	Associate
Guangzhou Popcorn Animation Technology Co., Ltd. ("Guangzhou Popcorn")	Associate

(b) Transactions with related parties

The following transactions were carried out with related parties:

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Loan to (note (i))		
Xiamen Chenxing	2,700	3,100
Shanghai Kamao	200	–
	2,900	3,100
Game research service from (note (ii))		
Guangzhou Popcorn	–	14
Shanghai Kamao	1,617	–
	1,617	14
Revenue sharing to (note (iii))		
Xiamen Chenxing	547	–

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

23. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties (continued)

Notes:

- (i) The Group offered an additional non-interest bearing loan amounted to RMB2,700,000 to Xiamen Chenxing with a term of 12 months during the first half of 2019.

The Group offered a non-interest bearing loan amounted to RMB3,100,000 to Xiamen Chenxing with a term of 12 months during the first half of 2018.

The Group offered a non-interest bearing loan amounted to RMB200,000 to Shanghai Kamao with a term of 6 months during the first half of 2019. The loan has been repaid by 30 June 2019.

- (ii) The purchase of game research services from Shanghai Kamao was mutually agreed after taking into account the prevailing market prices.

The purchase of video production services from Guangzhou Popcorn was mutually agreed after taking into account the prevailing market prices.

- (iii) The online game's revenue sharing to Xiamen Chenxing was mutually agreed after taking into account the prevailing market prices.

(c) Amount due from related parties:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Shanghai Kamao	971	971
Xiamen Chenxing	13,553	11,423
	14,524	12,394

(d) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	2,177	2,132
Equity-settled share-based payment expenses	1,356	3,360
Pension scheme contributions	102	80
	3,635	5,572

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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24. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the period were as follows:

Financial assets

As at 30 June 2019

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Total RMB'000
	Debt investments RMB'000	Debt investments RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	
Debt investments at fair value through other comprehensive income	-	27,901	-	-	27,901
Equity investments designated at fair value through other comprehensive income	-	-	18,918	-	18,918
Debt investments at fair value through profit or loss	184,828	-	-	-	184,828
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	-	-	-	21,966	21,966
Financial assets included in prepayments, other receivables and other assets	-	-	-	36,503	36,503
Cash and cash equivalents	-	-	-	157,055	157,055
	184,828	27,901	18,918	215,524	447,171

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019

24. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2018

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income			
	Debt investments RMB'000	Debt investments RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Debt investments at fair value through other comprehensive income	–	25,076	–	–	25,076
Equity investments designated at fair value through other comprehensive income	–	–	136,581	–	136,581
Debt investments at fair value through profit or loss	196,194	–	–	–	196,194
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	–	–	–	21,980	21,980
Financial assets included in prepayments, other receivables and other assets	–	–	–	32,770	32,770
Cash and cash equivalents	–	–	–	104,922	104,922
	196,194	25,076	136,581	159,672	517,523

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2019



24. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Financial liabilities at amortised cost	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Financial liabilities included in other payables and accruals	10,414	22,356
Interest-bearing bank and other borrowings	97,288	93,034
	107,702	115,390

25. FAIR VALUE AND FAIR VALUE HIERARCHY

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the board of directors. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of unlisted equity investments designated at fair value through other comprehensive income, have been estimated using equity transaction price or a market-based valuation technique valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to revenue ("EV/Revenue") multiple. The multiple is calculated by dividing the enterprise value of the comparable company by revenue measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2019 and 31 December 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiple	Average EV/Revenue multiple of peers	30 June 2019: 4.3 to 5.5 (31 December 2018: 4.6 to 4.8)	5% increase/(decrease) in multiple would result in increase/(decrease) in fair value by RMB822,000/ (RMB736,000) (31 December 2018: RMB771,000)
		Discount for lack of marketability	30 June 2019: 10% to 15% (31 December 2018: 14% to 16%)	5% increase/(decrease) in multiple would result in (decrease)/increase in fair value by (RMB120,000)/ RMB207,000 (31 December 2018: RMB158,000)

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019

	Fair value measurement using			Total RMB'000
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Debt investments at fair value through other comprehensive income	-	27,901	-	27,901
Debt investments at fair value through profit or loss	-	184,828	-	184,828
Equity investments designated at fair value through other comprehensive income	-	-	18,918	18,918
	-	212,729	18,918	231,647

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Debt investments at fair value through other comprehensive income	–	25,076	–	25,076
Debt investments at fair value through profit or loss	–	196,194	–	196,194
Equity investments designated at fair value through other comprehensive income	–	118,752	17,829	136,581
	–	340,022	17,829	357,851

The Group did not have any financial liabilities measured at fair value as at 30 June 2019 and 31 December 2018.

For the year ended 30 June 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised by the board of the directors on 28 August 2019.



GLOSSARY

“ARPPU”	average revenue per paying user, calculated by dividing monthly average revenue from the sale of virtual items and premium features during a certain period by the number of average MPUs during the same period
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“Cayman Islands”	the Cayman Islands
“CG Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Chairman”	the chairman of the Board
“Chief Executive Officer”	the chief executive officer of the Company
“China” or “PRC” or “Mainland China”	the People’s Republic of China excluding, for the purpose of this interim report, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company”, “we”, “us” or “our”	Feiyu Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2014
“Director(s)”	director(s) of the Company
“Executive Director(s)”	the executive Director(s)
“Ewan”	Ewan (Shanghai) Network Technology Co., Ltd. (易玩(上海)網絡科技有限公司), a limited liability company established under the laws of the PRC, primarily engaged in developing and operating an emerging mobile game distribution platform, Tap Tap, and is one of the non-wholly owned subsidiaries of XD
“Global Offering”	the offer of 30,000,000 Shares for subscription by the public in Hong Kong pursuant to the Hong Kong Public Offering and the offer of 270,000,000 Shares for subscription by institutional, professional, corporate and other investors pursuant to the International Offering (as respectively defined in the Prospectus)
“Group”	our Company, its subsidiaries and the PRC Operating Entities
“HK\$”, “Hong Kong dollars” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC



GLOSSARY

“IAS(s)”	International Accounting Standards
“IASB”	International Accounting Standard Board
“IFRS(s)”	International Financial Reporting Standards, amendments and interpretations issued by the IASB
“Independent Non-executive Director(s)”	the independent non-executive Director(s)
“Kailuo Tianxia”	Beijing Kailuo Tianxia Technology Co., Ltd (北京凱羅天下科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	The date which dealings in Shares first commence on the Stock Exchange, i.e. 5 December 2014
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“MAU”	monthly active users, which is the number of players who logged into a particular game in the relevant calendar month. Under this metric, a player who logged into two different games in the same month is counted as two MAUs. Similarly, a player who plays the same game on two different publishing platforms in a month would be counted as two MAUs. Average MAUs for a particular period is the average of the MAUs in each month during that period
“Meitu”	Meitu, Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands, share of which are listed on the Main Board of Stock Exchange (Stock Code:1357)
“Meitu Networks”	Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司), a limited liability company established under the laws of the PRC, is one of the important consolidated variable interest entities controlled through a series of contractual arrangement by Meitu
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules
“MPUs”	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period



“Nomination Committee”	the nomination committee of the Board
“Post-IPO RSU Plan”	the post-IPO restricted share unit plan adopted by the Shareholders on 17 November 2014
“Post-IPO Share Option Scheme”	the post-IPO share option scheme adopted by the Shareholders on 17 November 2014
“PRC Operating Entities”	Xiamen Guanghuan and its subsidiaries and “PRC Operating Entity” means any one of them
“Pre-IPO RSU Plan”	the pre-IPO restricted share unit plan adopted by the Shareholders on 17 November 2014
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by the Shareholders on 17 November 2014
“Prospectus”	the prospectus dated 25 November 2014 issued by the Company
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	Renminbi yuan, the lawful currency of the PRC
“RPG”	role-playing games, which involve a large number of players who interact with each other in an evolving fictional world. Each player adopts the role of one or more “characters” who develop specific skill sets (such as melee combat or casting magic spells) and control the character’s actions. There are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the players, and the storyline continuously evolves even while the players are offline and away from the games
“RSU(s)”	restricted share unit(s)
“RSU Plan II”	the restricted share unit plan II adopted by the Shareholders on 28 May 2018
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended from time to time)
“Shares”	ordinary share(s) in the share capital of our Company with nominal value of US\$0.0000001 each
“Shareholders”	holder(s) of Shares
“Sharelink”	Sharelink Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability



GLOSSARY

“Star Winner”	Star Winner Asia Corporation, a British Virgin Islands business company incorporated in British Virgin Islands with limited liability, an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong)
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission
“US\$”, “United States Dollars”	United States dollars, the lawful currency of the United States of America
“XD”	X.D. Network Inc. (心動網絡股份有限公司), an online game publishing and developing company with its shares listed on the National Equities Exchange And Quotations of the PRC (Stock Code: 833897) since 4 November 2015 and delisted on 25 December 2018
“Xiamen Guanghuan”	Xiamen Guanghuan Information Technology Co., Ltd. (廈門光環信息科技有 限公司), a limited company incorporated under the laws of the PRC on 12 January 2009.
“Xiamen Youli”	Xiamen Youli Information Technology Co., Ltd. (廈門游力信息科技有 限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
“Xianglian”	Xiamen Xianglian Technology Co., Ltd. (廈門享聯科技股份有 限公司), a joint stock limited company established under the law of the PRC

In this interim report, the terms “associate”, “connected person”, “connected transaction” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires