2019 ANNUAL REPORT

feiyu

Feiyu Technology International Company Ltd.
飛魚科技國際有限公司

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code： 1022

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:
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Suite 3201, Jardine House
1 Connaught Place
Central, Hong Kong

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

AUDITORS

Ernst &Young
Certified Public Accountants
22nd Floor, CITIC Tower
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REGISTERED OFFICE

Cricket Square
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Grand Cayman KY1-1111
Cayman Islands

CORPORATE HEADQUARTERS

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Xiamen, Fujian Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For The Year Ended 31 December				
	2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)	2015 (RMB'000)
Revenue	**112,851**	83,250	131,697	188,133	322,147
Gross profit	**78,070**	23,771	92,854	130,949	267,665
(Loss)/Profit before tax	**(87,311)**	(117,192)	(389,635)	(153,269)	99,730
(Loss)/Profit after tax	**(88,699)**	(119,460)	(388,780)	(160,915)	94,988
(Loss)/Profit for the year attributable to owners of the parent	**(80,342)**	(107,508)	(377,455)	(151,002)	65,882
Non-IFRSs Measures					
– Adjusted net (loss)/profit attributable to owners of the parent (unaudited) [(1)]	**(78,720)**	(94,097)	(45,152)	5,474	163,160
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
– Basic and Diluted	**RMB(0.05)**	RMB(0.07)	RMB(0.24)	RMB(0.10)	RMB0.04

Note:

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)	2015 (RMB'000)
Assets					
Non-current assets	**487,454**	492,279	533,277	881,150	761,467
Current assets	**243,276**	284,333	228,972	319,001	564,323
Total assets	**730,730**	776,612	762,249	1,200,151	1,325,790
Equity and liability					
Total equity	**509,735**	577,974	635,688	1,025,774	1,070,443
Non-current liabilities	**54,963**	21,986	4,940	10,547	5,527
Current liabilities	**166,032**	176,652	121,621	163,830	249,820
Total liabilities	**220,995**	198,638	126,561	174,377	255,347
Total equity and liabilities	**730,730**	776,612	762,249	1,200,151	1,325,790

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our annual report for the year ended 31 December 2019.

2019 presented an opportunity for a reignition of China's online game industry. The resumption of approvals for new game publications and monetisation at the end of the prior year allowed the industry to begin a recovery with total revenue growing 10.6% year-over-year to RMB310.2 billion.

We capitalized on this opportunity thanks to our focus on extending the long life cycles of our existing games, launching high-quality new games, diversifying our revenue streams and improving operational efficiency. Our financial results for the year reflect this improvement with revenue increasing 35.6% year-over-year to RMB112.9 million while the loss for the year narrowed by 25.8% to RMB88.7 million.

Our progress throughout the year is encouraging and we firmly believe that the long-term value of our Intellectual Property (IP), particularly that of Carrot Fantasy (保衛蘿蔔), Shen Xian Dao (神仙道), San Guo Zhi Ren (三國之刃) and Super Phantom Cat (超級幻影貓), will continue to drive robust growth of our business. Throughout the year, our existing games continued to maintain their appeal and relevance in the industry despite having entered the latter stages of their lifecycles. Shen Xian Dao (神仙道), a web RPG game launched in 2011, continued to significantly contribute to revenues in 2019 while the Carrot Fantasy (保衛蘿蔔) game series generated average MAU of over 4 million.

In 2019, we also launched four new games, all of which are mobile RPG games: Horcrux College (魂器學院), Peace in Chang'an (天下長安), Kung Fu Da Huang Dou (功夫大黃豆) and Rise of Heroes (阿拉伯英雄). In keeping with our strategy to extend our established hit titles across different gaming hardware platforms, we also launched console and PC versions of Super Phantom Cat II (超級幻影貓 II) for the Nintendo Switch and Steam respectively. Among the newly launched games, Horcrux College (魂器學院) was an important breakthrough for us as we penetrated deeper into the 2D gaming space. After sourcing it from a third-party game developer, we published and distributed the game through all mainstream platforms in October 2019 by leveraging the resources and knowhow we accumulated over the last decade. The game has proven to be very popular among gamers since its launch, ranking first on Bilibili's Best Sellers list and coming in the top 10 on TapTap's Most Played list.

Our IP licensing activity remains an important pillar of our overall business where it serves as a complementary engine of growth to game development and other operations. IP licensing allows us to leverage the enormous scale of our user base and unique content design to further increase the games' brand awareness and appeal in other formats which in turn contributes to our margins. We renewed licensing agreements with a number of major business partners who continued to manufacture and sell Carrot Fantasy (保衛蘿蔔) merchandise in 2019. We will continue to replicate this IP licensing success and expand the boundaries for our games in China going forward.

Going forward in 2020, we will spare no effort in developing high-quality games that leverage our renowned IPs and capitalize on the trends emerging for Multiplayer Online Battle Arena (MOBA) games. We are currently on track in the development of two games that we expect to launch in mid-2020. We also plan to launch a sequel to the Carrot Fantasy (保衛蘿蔔) game series this year and we will increase the corresponding IP licensing activity simultaneously in order to amplify its reach to as many users as possible. Our team will also proactively explore opportunities for growth in overseas markets by publishing both proprietary and third-party developed games.

I would like to take this opportunity to extend my deepest gratitude to our employees and management for their commitment and hard work throughout the year and especially during the ongoing challenges brought on by the COVID-19 pandemic. I would also like to thank our shareholders for your continued support and confidence in our Company.

YAO Jianjun
Chairman

Hong Kong, 7 April 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Overview

For the year ended 31 December 2019, the Company made encouraging progress in improving its financial performance. Total revenue was RMB112.9 million, representing a year-over-year increase of 35.6%, primarily driven by the increase in online game distribution, licensing and IP-related income as well as advertising revenue, which was partially offset by the decrease in revenue from game operations. Net loss attributable to owners of the parent was RMB80.3 million, a decrease of 25.3% year-over-year. As at 31 December 2019, the Company's RPG mobile and web games had approximately 55.1 million and 172.1 million cumulative registered users respectively, while its casual games had approximately 562.8 million cumulative activated downloads. For the reporting period, average MPUs for mobile RPG, web RPG and mobile casual games were approximately 33,000, 9,000 and 98,000 respectively, while the corresponding ARPPU was approximately RMB75.2, RMB142.6 and RMB5.9, respectively.

China's online game industry has experienced volatility in recent years. Following a historic drop in revenue to a single-digit growth rate in 2018, the industry began showing signs of recovery in 2019. According to the 2019 Annual Report of China's Online Game Industry published by Gamma Data (伽馬數據), total revenue of China's online game industry including contribution from international markets was RMB310.2 billion, representing a year-over-year growth of 10.6%, compared with 7.6% for 2018. Excluding overseas markets, China's domestic market generated revenue of RMB233.0 billion, representing a year-over-year growth of 8.7%, compared with 5.3% for the prior year. The market of mobile games continued to grow with revenue reaching RMB151.4 billion, representing an increase of 13.0% compared with 2018.

The resumption of new game monetisation approvals in late 2018 following regulatory changes relieved some of the pressure on the industry. However, the approval process and criteria used to examine games have become more rigorous. This significantly raised approval threshold with only well-made games receiving approval for publication and monetisation. While this created uncertainties when it comes to launching new games and difficulties in generating revenue, it has created a favourable environment for the development of innovative and high quality games, which have always formed the core of our business strategy since inception.

During the year ended 31 December 2019, the Company launched 4 RPG games, which were (i) *Kung Fu Da Huang Dou* (功夫大黃豆), a 3D RPG mobile game based on an IP licensed from the animated movie TOFU; (ii) *Rise of Heroes* (阿拉伯英雄), a mobile game which targets international markets; (iii) *Peace in Chang' an* (天下長安), a 3D ARPG mobile game based on the IP licensed from a TV series of the same name, and (iv) *Horcrux College* (魂器學院), a two-dimensional game which ranked No.1 on the Best Sellers list for 4 days after its release in October 2019 and maintained in the Top 10 for almost the entire first month following its launch on bilibili, a leading anime, comics and games ("ACG") platform, which is particularly popular among the younger generations in China. The game also ranked No.1 on the Most Played list for 3 days and maintained in the Top 10 for almost the entire first month following its launch on TapTap, a leading game distribution platform in China. In addition to the 4 RPG games, the Company also launched a console version on Nintendo Switch and PC version on Steam of *Super Phantom Cat II* (超級幻影貓II) in the first half of 2019 where they went on to receive tremendously positive feedback from users.

Leveraging the popular *Carrot Fantasy* (保衛蘿蔔) game series, whose highly adorable animations have been well-received among users, the Company continued to issue licenses to partners allowing them to apply the IP to their products while at the same time diversifying revenue streams and further increasing the IP's reach and popularity. During the reporting period, the Company renewed licensing agreements for Carrot Fantasy (保衛蘿蔔) with a number of partners, which included: (i) NICI International Trading (Shanghai) Co., Ltd. for the plush toys; (ii) Manufacture d'Articles de Precision Et de Dessin for stationary; (iii) China Children's Publishing House for books; (iv) Yunnan Baiyao (雲南白藥), a well-known dental health product manufacturer in China, for dental health and personal care products, and (v) Beijing GuoYuan Blue Ocean Investment Co., Ltd. (北京國元藍海投資有限公司) for "3C" (Computer, Communication, and Consumer) products.

In addition to licensing contract renewals, the Company also expanded into new markets and territories during the reporting period. The *Carrot Fantasy* (保衛蘿蔔) book series were localised and launched in Hong Kong and Vietnam in 2019, following its broad success in the Mainland Chinese market. The Company issued a license allowing the image of major characters in the *Carrot Fantasy* (保衛蘿蔔) game series to be used in Meitu (美圖) apps globally as part of its overseas strategy to leverage game characters' popularity and the tremendous user base of Meitu (美圖) apps which overlap with the games' target demographics. The Company also partnered with both Beijing Hanyi Innovation Technology Co., Ltd. (北京漢儀創新科技股份有限公司) and Changzhou Mylafe Network Technology Co., Ltd. (常州麥拉風網絡科技有限公司), to jointly-develop *Carrot Fantasy* (保衛蘿蔔) themed wallpapers and fonts for cellphone downloads, which have been launched on a number of mainstream Android phones in China including those from Huawei, Xiaomi, OPPO, and vivo. The Company seized the opportunity to participate in the 2019 Xiamen International Animation Festival by issuing a license 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 allowing them to use the images from *Carrot Fantasy* (保衛蘿蔔) in the Golden Dolphin IP Derivatives Design Competition during the festival.

Principal risks relating to our business

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

- We are required to comply with new policies or any amendment to current policies in relation to the game industry, which may affect our business operations;
- We face uncertainties in the continued growth of the mobile game and web game industries as well as the market acceptance of our mobile games and web games;
- Delays of game launches could negatively affect our operations and prospects;
- Technical issues that hamper the Group's ability to collect data and update games will negatively affect the Group's performance;
- The global economy experienced a slowdown, if the game players reduce their spending on playing games due to such uncertain economic conditions, our financial performance may be adversely affected;
- We depend on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services or are unable to attract new key employees;
- If we are unable to extend the relatively short expected lifecycle of our web games and mobile games or if our games do not maintain their popularity during their expected lifecycle, our business, financial condition, results of operations and prospects could be materially and adversely impacted;
- We rely on third-party distribution and publishing platforms to distribute and publish our games. If these third-party distribution and publishing platforms fail to effectively promote our games on their platforms or otherwise fulfil their obligations to us, our business and results of operations will be materially and adversely affected; and
- We may not be able to adapt to the rapidly evolving mobile game and web game industries in China, in particular to the changes in technology. If we fail to anticipate or successfully implement new technologies, our games may become obsolete or uncompetitive, and our business, financial conditions, results of operations and prospects could be materially and adversely affected.

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

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

- We set up an overseas game distribution and operation team to expand international operations in selected overseas market to reduce the impact of policies and regulations changes in mainland China on the Group;

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

- We closely monitor the progress of our pipeline games;

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

- To keep pace with the market and technology changes, we brought on board new talent to keep the competitiveness of our research and development ("R&D") teams and operation teams; and

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

Outlook for 2020

Despite the headwinds that China's online game industry has been facing over the past three years, significant growth potential for mobile games remains, as mobile online games have become an integral part of people's focus over the years as they have been spending more time on smartphones and tablets. The Company will continue to devote resources towards developing high-quality games leveraging its well established library of IP. The Company's pipeline of games targeted for lease in 2020 include two Multiplayer Online Battle Arena (MOBA) games and a sequel to the *Carrot Fantasy* (保衛蘿蔔) game series. Concurrently, the Company will continue to explore key overseas markets mainly through the publishing of both self and third-party-developed games.

With regard to IP licensing, the Company plans to continue expanding the category of products and services for use not only online but also offline through the licensing of characters and images from *Carrot Fantasy* (保衛蘿蔔), with an aim to seize new opportunities arising from the launch of the games' sequel in 2020.

Event after the year ended 31 December 2019

On 21 January 2020, the Board resolved to grant an aggregate of 112,000,000 share options (the "Share Options" and each a "Share Option") of the Company to five senior management of the Company to subscribe for an aggregate of 112,000,000 new Shares in the share capital of the Company under the Post-IPO Share Option Scheme, subject to acceptance. Among the 112,000,000 Share Options granted, 90,000,000 Share Options are subject to the approval of the independent shareholders of the Company at the extraordinary general meeting to be convened by the Company. Upon full exercise of the Share Options, the Shares to be allotted and issued thereunder represent approximately 7.24% of the total number of Shares in issue as at the date or grant and approximately 6.75% of the enlarged issued share capital of the Company. For details, please refer to the Company's announcement dated 21 January 2020.

With respect to the recent outbreak of the coronavirus pandemic ("COVID-19"), the Group has assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this annual report. The Group will keep continuous attention on the situation of COVID-19 and react actively to its impacts on the operation and financial position of the Group.

Final Dividend

The Board did not declare a final dividend for the year ended 31 December 2019 (for the year ended 31 December 2018: Nil).

FINANCIAL REVIEW

Operating Information

Our Games

In 2019, the Company continued to strategically develop high-quality games, including mobile and console games while at the same time strengthening its game publishing capabilities, in order to meet the rapidly evolving demand of gamers. This all happened despite the unfavorable regulatory environment and intense competition in the video game industry. In 2019, the Group launched four 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 the animated movie TOFU, *Rise of Heroes* (阿拉伯英雄), which targets international markets, *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, and *Horcrux College* (魂器學院), a two-dimensional game. Following its release in October 2019, *Horcrux College* (魂器學院) demonstrated enormous potential with very positive feedback received. It ranked No. 1 on the "Most Expected Game" list as well as the "Best Sellers" list for 4 days, and maintained a Top 10 ranking on the "Best Sellers" list for almost the entire first month following its launch on bilibili, an ACG platform which is particularly popular among the younger generations in China. *Horcrux College* (魂器學院) also ranked No. 1 on the "Most Played" list for 3 days and maintained a Top 10 ranking on the list for almost one month following its launch in TapTap, a popular game distribution platform in China. The game also enjoyed multiple recommendations by editors of bilibili and Taptap after its launch with rave reviews for its high quality content and design. The Group also launched a console version on Nintendo Switch and PC version on Steam for *Super Phantom Cat II* (超級幻影貓II) in the first half of 2019 which also received positive feedback from users.

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

	For the year ended 31 December			
	2019		2018	
	(RMB'000)	**(% of Total Revenue)**	(RMB'000)	(% of Total Revenue)
Game Operation				
Web games	**15,256**	**13.5**	15,209	18.3
Mobile games				
RPGs	**35,176**	**31.2**	45,161	54.2
Casual	**7,802**	**6.9**	5,853	7.0
PC games	**527**	**0.5**	871	1.1
HTML5 games	**185**	**0.2**	1,856	2.2
Console games	**280**	**0.2**	–	–
Total	**59,226**	**52.5**	68,950	82.8

Revenue contributed by game operation was approximately RMB59.2 million, representing a year-over-year decrease of approximately 14.1% as compared to approximately RMB69.0 million for 2018, which was primarily due to the decline in revenue from our existing RPG games as they reached the late stages of their respective lifecycles. As a percentage of total revenue, game operation decreased from approximately 82.8% for 2018 to approximately 52.5% for 2019, mainly due to a decrease in revenue contribution from mobile games and at the same time, the increases in revenue contribution from online game distribution and advertising business.

MANAGEMENT DISCUSSION AND ANALYSIS

Our Players

The Company assesses its operating performance using a set of key performance indicators, which include MAUs, MPUs and ARPPU. Fluctuations in its 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 the games. Using these operating data as a key performance indicators help the Company monitor its ability to offer engaging online games, the popularity of its games, the monetization potential of its player base and the degree of competition in the online game industry, and as a result the Company can continuously develop and improve its business strategies.

As at 31 December 2019, (i) our RPG mobile games and web games had approximately 227.2 million cumulative registered users, composed of approximately 172.1 million users for web games and approximately 55.1 million users for mobile games; (ii) our casual games had approximately 562.8 million cumulative activated downloads; and (iii) our HTML5 game had approximately 33.4 million cumulative registered users. For the month of December 2019, (i) our RPG mobile games and web games had approximately 0.4 million MAUs in aggregate, composed of approximately 0.2 million MAUs for mobile games and approximately 0.2 million MAUs for web games; (ii) our casual games had approximately 4.3 million MAUs; and (iii) our HTML5 game had approximately 0.3 millions MAUs.

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

	For the year ended 31 December		
	2019	2018	**Change%**
Average MPUs			
Web games (RPGs) (000's)	**9**	10	(10.0)
Mobile games (RPGs) (000's)	**33**	51	(35.3)
Casual (000's)	**98**	110	(10.9)
ARPPU			
Web games (RPGs) (RMB)	**142.6**	121.6	17.3
Mobile games (RPGs) (RMB)	**75.2**	96.6	(22.2)
Casual (RMB)	**5.9**	4.4	34.1

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

MPUs for web games were approximately 9,000 for the year ended 31 December 2019, compared with approximately 10,000 for the year ended 31 December 2018. The decrease was due to its web games reaching the latter stages of their expected lifecycles, as well as changes in the Company's strategic focus which shifted from web games to mobile games beginning in 2013. Average MPUs for mobile RPG games decreased from approximately 51,000 for the year ended 31 December 2018 to approximately 33,000 for the year ended 31 December 2019, primarily attributable to the termination of several mobile RGP games such as *Demon Tower* (魔界塔) and *Sprites Legend* (靈妖記－神仙道外傳) which contributed a large number of MPUs for the year ended 31 December 2018, but entered into a latter stage of its lifecycle in 2019. Average MPUs for casual games decreased from approximately 110,000 for the year ended 31 December 2018 to approximately 98,000 for the year ended 31 December 2019, primarily attributable to the decrease in the average MPUs for the *Carrot Fantasy* (保衛蘿蔔) game series, which have reached the latter stages of their expected lifecycles since 2017.

ARPPU for web games increased from approximately RMB121.6 for the year ended 31 December 2018 to approximately RMB142.6 for the year ended 31 December 2019, primarily driven by the increase in ARPPU for the web version of *Shen Xian Dao* (神仙道), which has entered the mature stage of its expected lifecycle when loyal players are more willing to make in-game purchase. ARPPU for casual games increased from approximately RMB4.4 for the year ended 31 December 2018 to approximately RMB5.9 for the year ended 31 December 2019, primarily attributable to the increase in ARPPU of the *Carrot Fantasy* (保衛蘿蔔) game series, which have been updated more frequently with new features to attract existing and new players. ARPPU for RPG mobile games decreased from approximately RMB96.6 for the year ended 31 December 2018 to approximately RMB75.2 for the year ended 31 December 2019 due to the decline in ARPPU from our RPG mobile game *San Guo Zhi Ren* (三國之刃), which had already matured into the latter stages of its expected lifecycle since 2017. The termination of *Sprites Legend* (靈妖記－神仙道外傳) in early 2019, which was an RPG game with higher ARPPU also contributed to the decrease in ARPPU of RPG mobile games.

The Company continued to launch various in-game promotions and activities, release regular updates of our premium games and offer high-quality customer service, in order to enhance the features of its games and to maintain user interest as part of its core business strategies. The Company believes all these initiatives have had significant influence on retaining its active players and maintaining its expansive active player base for sustainable growth.

The year ended 31 December 2019 compared to the year ended 31 December 2018

The following table sets forth the income statement of our Group for the year ended 31 December 2019 as compared to the year ended 31 December 2018.

	For the year ended 31 December		
	2019 (RMB'000)	2018 (RMB'000)	**Change %**
Revenue	**112,851**	83,250	35.6
Cost of sales	**(34,781)**	(59,479)	(41.5)
Gross profit	**78,070**	23,771	228.4
Other income and gains	**14,333**	33,488	(57.2)
Selling and distribution expenses	**(29,257)**	(10,629)	175.3
Administrative expenses	**(75,387)**	(60,207)	25.2
Research and development costs	**(70,448)**	(93,633)	(24.8)
Finance costs	**(2,672)**	(1,904)	40.3
Other expenses	**(670)**	(5,179)	(87.1)
Share of losses of associates	**(1,280)**	(2,899)	(55.8)
LOSS BEFORE TAX	**(87,311)**	(117,192)	(25.5)
Income tax expense	**(1,388)**	(2,268)	(38.8)
LOSS FOR THE YEAR	**(88,699)**	(119,460)	(25.8)
Attributable to:			
Owners of the parent	**(80,342)**	(107,508)	(25.3)
Non-controlling interests	**(8,357)**	(11,952)	(30.1)

Revenue

The following table sets forth a breakdown of our revenue for the years ended 31 December 2019 and 2018:

	For the year ended 31 December			
	2019		2018	
	(RMB'000)	**(% of Total Revenue)**	(RMB'000)	(% of Total Revenue)
Game Operations	**59,226**	**52.5**	68,950	82.8
Online game distribution	**30,885**	**27.4**	940	1.1
Licensing and IP-related income	**10,546**	**9.3**	6,889	8.3
Advertising revenue	**11,430**	**10.1**	6,169	7.4
Technical service income	**764**	**0.7**	302	0.4
Total	**112,851**	**100.0**	83,250	100.0

Total revenue increased by approximately 35.6% to approximately RMB112.9 million for the year ended 31 December 2019, compared to the year ended 31 December 2018.

Revenue from game operations decreased by approximately 14.1% year-over-year to approximately RMB59.2 million for the year ended 31 December 2019. The decrease was primarily due to *San Guo Zhi Ren* (三國之刃) entering the latter stage of its expected lifecycle since 2017, coupled with the termination of *Sprites Legend* (靈妖記－神仙道外傳) in early 2019. The decrease was also due to the delayed launch of several new games as a result of the restrictions placed on new game publication and monetisation approvals as well as the Company's strategic decision to invest additional development time and resources to enhance overall game quality.

Revenue from online game distribution increased significantly by approximately 3,185.6% year-over-year to approximately RMB30.9 million for the year ended 31 December 2019, which was primarily due to the launch of (i) *Horcrux College* (魂器學院), a two-dimensional game developed by a third-party game developer; (ii) *Kung Fu Da Huang Dou* (功夫大黃豆), a mobile game developed by a third-party game developer and (iii) *Peace in Chang' an* (天下長安), a mobile game developed by our associated company and the testing of a few other mobile games developed by other game developers.

Licensing and IP-related income increased by approximately 53.1% year-over-year to approximately RMB10.5 million for the year ended 31 December 2019. The increase was primarily attributable to the recognition of a one-off licensing fee of approximately RMB6.6 million for the HTML5 version of *Shen Xian Dao* (神仙道), while there was no such one-off licensing fees recognised for the year ended 31 December 2018. The increase in licensing and IP-related income was partially offset by the decrease in licensing fees of *Carrot Fantasy III* (保衛蘿蔔III) from approximately RMB4.8 million for the year ended 31 December 2018 to approximately RMB2.2 million for the year ended 31 December 2019 due to the expiration of the licensing agreement in June 2019.

Advertising revenue increased by approximately 85.3% to approximately RMB11.4 million for the year ended 31 December 2019 from the last year, 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 153.0% to approximately RMB0.8 million for the year ended 31 December 2019 from the last year, primarily due to the provision of technical support services for 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 in 2018.

Cost of sales

Our cost of sales decreased by approximately 41.5% from approximately RMB59.5 million for the year ended 31 December 2018 to approximately RMB34.8 million for the year ended 31 December 2019, primarily due to the recognition of costs associated with the operation of Meitu's game distribution platforms of approximately RMB14.5 million for the year ended 31 December 2018, while there were no such costs recognised for the year ended 31 December 2019. The Group entered into an exclusive licensing agreement with Meitu Networks to operate, develop and manage the game operations on its game businesses since late March 2018. Having considered the Group's future strategic direction and current market environment of game distribution platforms, and after due and careful consideration through friendly negotiations, on 21 February 2019, the Group and Meitu Networks mutually agreed to discontinue the cooperation and entered into an agreement to terminate the cooperation contemplated under the exclusive licensing agreement. The decrease in cost of sales was also attributable to the decrease in employee costs from approximately RMB28.9 million for the year ended 31 December 2018 to approximately RMB20.4 million for the year ended 31 December 2019, which was associated with the decrease in the number of operational employees to streamline the Company's corporate structure. In addition, the decrease in cost of sales was also attributable to the decrease in share-based compensation from approximately RMB3.6 million for the year ended 31 December 2018 to approximately RMB1.4 million for the year ended 31 December 2019.

Gross profit and gross profit margin

Gross profit increased by approximately 228.4% from approximately RMB23.8 million for the year ended 31 December 2018 to approximately RMB78.1 million for the year ended 31 December 2019. Our gross profit margin for the year ended 31 December 2019 was approximately 69.2% as compared with 28.6% for the year ended 31 December 2018.

Other income and gains

Other income and gains decreased by approximately 57.2% from approximately RMB33.5 million for the year ended 31 December 2018 to approximately RMB14.3 million for the year ended 31 December 2019, which was primarily due to the decrease in government grants from approximately RMB13.1 million for the year ended 31 December 2018 to approximately RMB6.3 million for the year ended 31 December 2019. Government grants are issued in connection with the Group's financial performance. The decrease in other income and gains was also due to the decrease in investment income from approximately RMB10.9 million for the year ended 31 December 2018 to approximately RMB0.4 million for the year ended 31 December 2019 which was attributable to the change in fair value of our debt investments at fair value through profit or loss. In addition, the decrease in other income and gains was also attributable to the decrease in bond interest income and bank interest income from approximately RMB8.3 million for the year ended 31 December 2018 to approximately RMB5.7 million for the year ended 31 December 2019, which was mainly due to the decreased balance of bond investments following the disposal of bonds since 2018 to invest in the equity investments and to support the construction of the Company's R&D centre and headquarters building.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 175.3% from approximately RMB10.6 million for the year ended 31 December 2018 to approximately RMB29.3 million for the year ended 31 December 2019, which was mainly attributable to the increase in advertisement fees from approximately RMB5.1 million to approximately RMB25.2 million, primarily due to the increased number of promotional activities for *Horcrux College* (魂器學院), *Peace in Chang' an* (天下長安) and *Rise of Heroes* (阿拉伯英雄) which were launched in 2019 and other games undergoing testing that are currently in various stages of development. The increase was partially offset by a decrease in channel fees from approximately RMB3.3 million for the year ended 31 December 2018 to approximately RMB2.2 million for the year ended 31 December 2019, as the Company's self-operated games entered the mature stages of their respective lifecycles and the termination of the operation of *Sprites Legend* (靈妖記－神仙道傳) in early 2019.

Administrative expenses

Administrative expenses increased by approximately 25.2% from approximately RMB60.2 million for the year ended 31 December 2018 to approximately RMB75.4 million for the year ended 31 December 2019. The increase was primarily attributable to the recognition of a bad debt on loans to an associated company, Xiamen Chenxing, the developer of *Peace in Chang' an* (天下長安), of approximately RMB14.1 million for the year ended 31 December 2019, which the Company does not expect to recover due to the underperformance of the game in 2019, while no such expenses were recognised in 2018. The Company is still uncertain as to when the Peace in Change'an TV-series can hit the screen. 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 year ended 31 December 2019, which the Company does not expect to recover due to the non-fulfilment of the tax contribution condition as agreed in the agreement in respect of the supervision of the Land, while no such expenses were recognised in 2018.

Research and development costs

R&D costs decreased by approximately 24.8% from approximately RMB93.6 million for the year ended 31 December 2018 to approximately RMB70.4 million for the year ended 31 December 2019, which was primarily attributable to the decrease in employee costs from approximately RMB68.8 million for the year ended 31 December 2018 to approximately RMB52.6 million for the year ended 31 December 2019 as a result of the decreased average number of R&D employees in 2019 due to the Company's efforts to streamline its corporate structure. The decrease was also due to a deemed share-based payment of RMB2.5 million recognised in 2018 while there was no such expense in 2019. The deemed share-based payment was related to the non-reciprocal capital contributions made by the Group to the non-wholly owned subsidiaries of which the non-controlling shareholders are employees. In addition, the decrease in our R&D costs was also due to the decrease in share-based compensation of approximately RMB2.8 million.

Finance costs

Finance costs increased by approximately 40.3% from approximately RMB1.9 million for the year ended 31 December 2018 to approximately RMB2.7 million for the year ended 31 December 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 RMB1.9 million for the year ended 31 December 2018 to approximately RMB2.2 million for the year ended 31 December 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 RMB0.5 million for the year ended 31 December 2019 while no such expenses were recognised in 2018.

Other expenses

Other expenses decreased significantly by approximately 87.1% from approximately RMB5.2 million for the year ended 31 December 2018 to approximately RMB0.7 million for the year ended 31 December 2019. The decrease was primarily due to the recognition of an impairment loss of goodwill of approximately RMB3.9 million related to the Company's acquisition of two subsidiaries, Xiamen Veewo Games Co., Ltd. (廈門微沃時刻科技有限公司) ("Xiamen Veewo") and Shenzhen Zhangxin Interactive Technology Co., Ltd. (深圳掌心互動科技有限公司) ("Shenzhen Zhangxin") in 2018, while there was no such impairment made in 2019. The impairment loss was made as the recoverable amount of the Super Phantom Cat cash-generating unit and Shenzhen Zhangxin cash-generating unit to which the goodwill was related was less than the carrying amount of the goodwill.

Income tax expense

Income tax expense decreased by approximately 38.8% from approximately RMB2.3 million for the year ended 31 December 2018 to approximately RMB1.4 million for the year ended 31 December 2019, which was mainly resulted from the decrease in revenue and decrease in profits of the subsidiaries which were not exempted from income tax.

Loss for the year

As a result of the above, the loss for the year decreased by approximately 25.8% from approximately RMB119.5 million for the year ended 31 December 2018 to approximately RMB88.7 million for the year ended 31 December 2019. Loss attributable to owners of the parent decreased by approximately 25.3% from approximately RMB107.5 million for the year ended 31 December 2018 to approximately RMB80.3 million for the year ended 31 December 2019.

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.

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 the parent for the accounting period.

	For the year ended 31 December		
	2019 (RMB'000)	2018 (RMB'000)	**Change %**
Loss for the year attributable to owners of the parent	**(80,342)**	(107,508)	(25.3)
Add:			
Share-based compensation	**1,622**	13,411	(87.9)
Total	**(78,720)**	(94,097)	(16.3)

Financial Position

As at 31 December 2019, total equity of the Group amounted to approximately RMB509.7 million, compared with approximately RMB578.0 million as at 31 December 2018. The decrease was mainly due to the loss of approximately RMB88.7 million recognised for the year ended 31 December 2019, and was partially offset by the changes in fair value of the Group's debt investments and transfer of fair value reserve upon disposal of the equity investments of approximately RMB15.0 million recognised in other comprehensive income.

As at 31 December 2019, the Group recorded net current assets of approximately RMB77.2 million, representing a decrease of 28.3% compared with approximately RMB107.7 million as at 31 December 2018. The decrease was mainly due to recognition of a bad debt on loans to our associated company of approximately RMB14.1 million as disclosed in this annual report. The decrease in net current assets was also due to the decrease in deposits of approximately RMB5.1 million as a result of the return of lease deposits and litigation deposits in 2019.

Liquidity and Capital Resources

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

	2019 (RMB'000)	2018 (RMB'000)	**Change %**
Net cash flow used in operating activities	**(72,299)**	(121,729)	(40.6)
Net cash flow from investing activities	**131,314**	32,376	305.6
Net cash flow from financing activities	**17,466**	32,810	(46.8)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**76,481**	(56,543)	(235.3)
Cash and cash equivalents at the beginning of year	**104,922**	155,397	(32.5)
Effect of foreign exchange rate changes, net	**(2,185)**	6,068	(136.0)
Cash and cash equivalents at the end of year	**179,218**	104,922	70.8

Total cash and cash equivalents amounted to approximately RMB179.2 million as at 31 December 2019, compared with approximately RMB104.9 million as at 31 December 2018. The increase was primarily due to the consideration received from the disposal of 4.34% equity interest in TapTap which was approximately RMB108.5 million and the consideration received following the maturity of several straight bonds and convertible preference shares. The increase was partially offset by the utilisation of the Company's cash and cash equivalents used in operating activities.

As at 31 December 2019, approximately RMB53.3 million of the Company's financial resources (31 December 2018: RMB41.8 million) was held in deposits denominated in non-RMB currencies. The Company currently does not hedge transactions undertaken in foreign currencies but manages its foreign exchange exposure by limiting its foreign currency exposure which it constantly monitors. 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 31 December 2019, the Group had aggregate bank loans of approximately RMB126.5 million (31 December 2018: RMB93.0 million), of which approximately RMB74.4 million is repayable within one year, RMB46.6 million is payable after one year but within five years and approximately RMB5.5 million is payable after five years. The Group had lease liabilities of approximately RMB9.8 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 facilities during the period and the increase in rights-of-use assets upon the adoption of IFRS 16.

As at 31 December 2019, the Group's bank loans included time loan of approximately HK$67.7 million (31 December 2018: HK$65.5 million) with an interest rate of 3.776% 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 centre of approximately RMB56.1 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 31 December 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 RMB197.9 million (31 December 2018: RMB357.9 million), which represented the straight bonds and convertible bond issued by banks or reputable companies, with Standard & Poor ("S&P") ratings above BB – and coupon rates ranged from 4.5% 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 31 December 2019 were not protected. The fair value of debt investments at fair value through other comprehensive income, debt investments at fair value through profit or loss in straight bonds and convertible bonds 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.

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

Details of the Group's debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss as at 31 December 2019 are presented as follows:

(A) Straight Bonds

Name of the straight bonds	*Notes*	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2019 (RMB'000)	Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the year ended 31 December 2019 (RMB'000)	Fair value as at 31 December 2019 (RMB'000)	Percentage of total FVOCI and FVPL Investments at 31 December 2019	Percentage of total assets of the Group as at 31 December 2019
Huarong Finance II Co., Ltd. ("Huarong Finance II")	*1*	57	32	1,426	0.7%	0.2%
Huarong Finance 2017 Co., Ltd. ("Huarong Finance 2017")	*2*	908	3,682	22,529	11.4%	3.1%
The Bank of East Asia, Limited ("BEA")	*3*	200	–	–	–	–

Notes:

1. Please refer to note 21 to the financial statements for 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.

Pursuant to the interim results announcement of Huarong Group for the six months ended 30 June 2019, Huarong Group recorded a total income of approximately RMB56,810 million and profit for the period of approximately RMB2,812 million. Despite the complicated and tightening macroeconomic condition and tight regulatory environment, the Huarong Group's operating results achieved a stable recovery, resulting from its proactive return to the core businesses, downsizing and risk resolution, along with continual efforts in risk management and business capacity enhancement, as Huarong Group pursued stability in overall operation and advancement in core business.

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

2. Please refer to note 21 to the financial statements for 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. On 27 June 2017 and 28 June 2017, the Group invested in a bond issued by BEA 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). On 7 November 2019, the remaining part of the above straight bond with an aggregated nominal amount of US$700,000 was fully redeemed by BEA in advance of the maturity date at an aggregated consideration of US$700,000 (equivalent to approximately RMB4.9 million). Please refer to note 21 to the financial statements and the 2018 annual report of the Company for details.

(B) Convertible Bond

Name of the convertible bond	*Note*	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2019 (RMB'000)	Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2019 (RMB'000)	Fair value as at 31 December 2019 (RMB'000)	Percentage of total FVOCI and FVPL Investments at 31 December 2019	Percentage of total assets of the Group as at 31 December 2019
Standard Chartered PLC	*1*	896	548	14,286	7.2%	2.0%

Note:

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

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

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

   Pursuant to the annual report of Standard Chartered Group for the year ended 31 December 2019, Standard Chartered Group recorded the operating income of approximately US$15,417 million and profit for the period of approximately US$2,340 million. Standard Chartered Group continued to move forwards and upwards in 2019 despite the external uncertainties. Standard Chartered Group will continue to maximise opportunities on the one hand and maintain appropriate risk control on the other.

   The Group believes that Standard Chartered Group will improve returns in a strong sale and sustainable manner and is therefore optimistic about the future prospect of Standard Chartered Group.

(C) Convertible Preferred Shares

Name of the convertible preferred Shares	*Notes*	**Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2019** (RMB'000)	**Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2019** (RMB'000)	**Fair value as at 31 December 2019** (RMB'000)	**Percentage of total FVOCI and FVPL Investments at 31 December 2019**	**Percentage of total assets of the Group as at 31 December 2019**
Industrial and Commercial Bank of China Limited ("ICBC")	*1*	2,067	–	–	–	–
China Cinda Asset Management Co., Ltd. ("Cinda")	*2*	–	–	–	–	–

Notes:

1. On 18 February 2015, the Group invested in convertible preferred shares issued by ICBC 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 10 December 2019, the above convertible preferred shares with an aggregated nominal amount of US$5,000,000 was fully redeemed by ICBC in advance of the maturity date at an aggregated consideration of US$5,000,000 (equivalent to approximately RMB35.2 million). Please refer to note 21 to the financial statements and the 2018 annual report of the Company for details.

2. On 30 September 2016, the Group invested in convertible preferred shares issued by Cinda. 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 21 to the financial statements and the 2018 annual report of the Company for details.

(D) Investment in Life Insurance Policies

Name of the investment in life insurance policies	*Note*	**Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2019** (RMB'000)	**Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2019** (RMB'000)	**Fair value as at 31 December 2019** (RMB'000)	**Percentage of total FVOCI and FVPL Investments at 31 December 2019**	**Percentage of total assets of the Group as at 31 December 2019**
Investment in life insurance policies	*1*	–	4,154	98,977	50.0%	13.5%

Note:

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

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

   There will be no interest income recognised 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 profit or loss.

(E) *Unlisted Equity Investments*

Company Name	*Notes*	**Percentage of shareholdings at 31 December 2019**	**Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the year ended 31 December 2019** (RMB'000)	**Fair value as 31 December 2019** (RMB'000)	**Percentage of total FVOCI and FVPL investments 31 December 2019**	**Percentage of the total assets of the Group as 31 December 2019**
Ewan	*1*	–	–	–	–	–
Xiamen eName Technology Co., Ltd.	*2*	2.0%	3,038	17,001	8.6%	2.3%
Others	*3*	–	2,189	6,055	3.1%	0.8%

Notes:

1. 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.

2. 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 interim report for the six months ended 30 June 2019, eName recorded revenue of approximately RMB67.8 million and net loss after tax of approximately RMB73,000. The decrease in revenue and the net loss recorded were mainly attributable to the complicated and tightening macroeconomic condition, the tight regulatory environment of Intellectual property industry and the depressed domain business market. However, eName has established the leading position in the domain transaction and service industry through mature technical support, convenient transaction procedure and humanized service management and it will be committed to develop and expand the domain transaction and service business as well as the emerging trademark business.

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

3. Others comprised three (3) unlisted limited liability companies and none of these investments accounted for more than 0.5% of the total assets of the Group as at 31 December 2019.

(F) Unlisted Debt Investments

Company Name	*Notes*	**Percentage of shareholdings at 31 December 2019**	**Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2019** (RMB'000)	**Fair value as 31 December 2019** (RMB'000)	**Percentage of total FVOCI and FVPL investments 31 December 2019**	**Percentage of the total assets of the Group as 31 December 2019**
APOLLO CAPITAL L.P. ("APOLLO")	1	–	1,298	–	–	–
Future Capital Discovery Fund II, L.P. ("Future Capital")	2	1.8797%	1,347	17,715	9.0%	2.4%
Others	3	–	(2,211)	19,925	10.1%	2.7%

Notes:

1. 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.

2. 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 year ended 31 December 2019, Future Capital recorded income of approximately US$3,958 and net increase in partners' capital resulting from operations of approximately US$9.5 million. Future Capital expected to realise most of its investments at a later stage in order to enjoy a higher capital appreciation.

   During the year ended 31 December 2019, the Group received distribution of proceeds related to the Partnership's partial exit from one investment in the amount of US$40,770.68 (equivalent to approximately RMB281,000) from Future Capital Discovery Fund II, L.P.

   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.

3. Others comprised two (2) unlisted debt investments and none of these investments accounted for more than 1.4% of the total assets of the Group as at 31 December 2019.

There was no impairment made for any investments in debt instruments for the year ended 31 December 2019. Investments in equity instruments do not involve any separate impairment accounting under IFRS 9 – Financial Instruments.

Gearing ratio

On the basis of total liabilities divided by total assets, the Group's gearing ratio was 30.2% as at 31 December 2019 as compared with 25.6% as at 31 December 2018.

Capital expenditures

The following table sets forth our capital expenditures for the year ended 31 December 2019 and 2018:

	For the year ended 31 December		
	2019 (RMB'000)	2018 (RMB'000)	**Change %**
Property, plant and equipment	**1,495**	2,971	(49.7)
Construction in progress	**49,123**	45,927	7.0
Total	**50,618**	48,898	3.5

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 year ended 31 December 2019 were approximately RMB50.6 million compared with RMB48.9 million for the year ended 31 December 2018, representing an increase of approximately 2.9%, which was primarily due to the increase in construction costs for our R&D centre and headquarters building in Xiamen, the PRC from approximately RMB45.9 million for the year ended 31 December 2018 to approximately RMB49.1 million for the year ended 31 December 2019. The increase was partially offset by the decrease in purchase of office equipment, motor vehicles and leasehold improvement from approximately RMB1.9 million for the year ended 31 December 2018 to approximately RMB7,000 for the year ended 31 December 2019 as a result of the 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 then 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 31 December 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.

However, since the dispatch 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 million to RMB13.0 million. With the supplemental agreement taking effect, the Company’s ownership of Global OW decreased from 20% to 13%. As at 31 December 2019, the Company has invested all the RMB13.0 million into Global OW.

Save as disclosed in this annual report, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2019. Apart from those disclosed in this annual report, there was no plan authorised by the Board for other significant investment or acquisition of major capital assets or other businesses in 2020. However, the Group will continue to identify new opportunities for business development.

Pledge of Assets

As at 31 December 2019, a bank loan of the Group amounting to HK$67.7 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$14.2 million. As at 31 December 2019, a bank loan of the Group of approximately RMB56.1 million (under a loan facility of up to RMB120.0 million) was used for the construction of the Company's R&D centre, 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 RMB206.0 million.

Contingent liabilities and guarantees

As at 31 December 2019, we did not have any unrecorded significant contingent liabilities, guarantees or any litigation with claims made against us.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, we had 387 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 31 December 2019:

	Number of Employees	% of Total
Development	234	60.4
Operations	75	19.4
Administration	75	19.4
Sales and marketing	3	0.8
Total	387	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.

Foreign currency risk

In the year ended 31 December 2019, the Group did not encounter significant foreign currency risk from its operations and did not hedge against any fluctuation in foreign currency.

Interest rate risk

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

Use of Net Proceeds from Listing

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

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

	Net Proceeds from Global Offering			
	Available to utilise		**Utilised (up to 31 December 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%	92,641	–
Establishing and expanding international operations in selected overseas markets	69,480	15%	58,358	11,122
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%	452,080	11,122

Note: The figures above are approximate figures.

As at 31 December 2019, the Group had utilised the net proceeds from the Global Offering of RMB452.1 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 the net proceeds of approximately RMB11.1 million are currently placed with reputable banks as the Group's cash and cash equivalents, and is intended to be used for establishing and expanding our international operations in selected overseas markets, in particular for promoting certain new games planned to be launched by our newly set up overseas game distribution and operation team in overseas markets in the first half of 2020, and the budgeted amount is expected to cover the selling & marketing expenses till the end of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Social Responsibility

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

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

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

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

Compliance with Relevant Laws and Regulations

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

In relation to game development and operation, the Company is committed to complying with the laws and regulations such as The Interim Measures for the Administration of Online Games (Amended in 2017), the Copyright Law of the PRC (2010 Amendment), Online Publishing Service Management Rules (2016), Anti-addiction Notice (2007), Provisions on Ecological Governance of Network Information Content (2019), Notice Regarding Commencement of Authentication of Real Names for Anti-addiction System on Online Games and Notice by the General Administration of Press and Publication of Preventing Minors from Indulging in Online Games.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Reporting Period and Scope

Feiyu Technology International Company Limited ("Feiyu" or the "Company" or the "Group" or "we" or "us") is delighted to present the Environmental, Social and Governance ("ESG") Report (the "Report") for the year of 2019. The data collected and performance were generated from the period of 1 January to 31 December 2019 (the "Year" or "Reporting Period").

The ESG Report is a useful material to showcase the performance of Feiyu in different aspects, including internal and external measures taken so that our Company was operated in a more environmentally friendly method; managed our employees and corporate responsibilities in a responsible manner during the Year. Our ESG policies and our achievements have been disclosed throughout the Report. This Report covered our Mainland China business for the provision of online game services as it contributes over 90% of the Group's revenue for the Year.

Reporting Standard

The Group ensures the ESG Report has been prepared in accordance with the disclosure requirements of the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. As for the information in regards to the performance of corporate governance, please refer to the "Corporate Governance Report" section presented in our Annual Report 2019.

Your Feedback

The Group welcomes stakeholders' feedback on our environmental, social and governance approach and performance. Comments or advice on this Report and its contents are welcome by email to IR@feiyu.com.

ABOUT FEIYU

Business Overview

Feiyu is a leading developer and operator in the mobile and web game industry in Mainland China. Throughout the years, we have been aligning with our motto in being "Marvellously Creative with Simple Way" (用簡單創造精彩). We have developed numerous popular games which have received various awards since their first release. Some of our iconic gaming products include "Shen Xian Dao (神仙道)", "Carrot Fantasy (保衛蘿蔔)" series and "San Guo Zhi Ren (三國之刃)". Since these have been some of the most downloaded games in the market, Feiyu has created comprehensive and diverse product lines in serving a wider range of players. "To better the Virtual World" being a mission to Feiyu all along, we hope to explore more on different topics and develop more unique products based on the interests and curiosities of our players.

Awards and Recognitions

Awards		Certificates	Research and Development
Peace in Chang An (天下長安)	• Most Expected Mobile Online Game in Golden Plume Award (金翎獎)	• China's High and New Technology Enterprise • National Cultural Export Key Enterprises 2019-2020 (2019-2020年度國家文化出口重點企業)	• 12 Newly Applied Software Copyrights
Kaki Raid (咔嘰探險隊)	• Gold Award in Mobile Game Category in 2019 GWB Game Awards (2019 騰訊遊戲創意大賽)	• Xiamen Animation Enterprises Accreditation (廈門市動漫企業資質認定) • Software Enterprise and Software Product Assessment (軟件企業雙軟評估)	• 5 Newly Obtained Patents • 8 Newly Registered Artwork and Music Copyrights

THE MILESTONES OF FEIYU

- 2011 May
  Shen Xian Dao
  (神仙道)
  published
- 2012 July
  Carrot Fantasy
  (保衛蘿蔔)
  published
- 2013 November
  Carrot Fantasy 2
  (保衛蘿蔔 2)
  published
- 2014 August
  San Guo Zhi Ren
  (三國之刃)
  published
- 2016 January
  Super Phantom Cat
  (超級幻影貓)
  published
- 2017 January
  Push Heroes
  (推拉英雄)
  published
- 2017 June
  Eat Fatty
  (你胖你先吃)
  published
- 2017 August
  Super Phantom Cat 2
  (超級幻影貓 2)
  published
- 2017 September
  Sprites Legend
  (靈妖記 - 神仙道外傳)
  published
- 2017 November
  I Am The Hero
  (英雄就是我)
  published
- 2018 August
  Demon Tower
  (魔界塔)
  published
- 2019 February
  Peace in Chang An
  (天下長安)
  published
- 2019 October
  Horcrux College
  (魂器學院)
  published

ESG RISK MANAGEMENT

The Board is responsible for the Group's ESG strategy formulation and reporting, evaluating and determining the Group's ESG-related risks, and ensuring that appropriate and effective ESG risk management measures and internal control systems are in place. In order to determine the ESG reporting scopes, stakeholder engagement survey had been conducted. The summary of material ESG items are listed out in this Report.

CONNECTING WITH OUR STAKEHOLDERS

We understand the importance of the input and feedback of our stakeholders as they can impact our business operation performance. Our key stakeholders include employees, players/customers, shareholders/investors, suppliers, business partners, government and the community. We have maintained close communications with our stakeholders through our official WeChat platform, QQ, Weibo and online forums etc. We cherish the opportunity for allowing us to receive feedback from our stakeholders so that we can strive for sustainable performances in other areas e.g. environmental protection, internal customers management or after-sales service etc. as well, in addition to aiming to create the best gaming experience in the virtual world.

Stakeholders' Engagement and Materiality Assessment

This Year, we have evaluated 19 sustainability issues and assessed their importance to stakeholders and the Group through survey. This assessment helps to ensure that our business objectives and development direction are in line with the stakeholders' expectation and requirements. The Group's and stakeholders' matters of concern are presented in the following materiality matrix.

The Quality of Workplace Environment	Environmental Protection and Green Operations	Operational Practices	Business Operations	Contribution to Society
1. Equality, diversification and anti-discrimination	6. Emission management	10. Supplier management	12. Game development ability	18. Intellectual property
2. Occupational health and safety	7. Resource management	11. Anti-corruption	13. Health and safety of gaming	19. Community contributions
3. Training and development	8. Waste handling		14. Protection of players' data	
4. Anti-child and forced labour	9. Green procurement		15. Product responsibility	
5. Employee benefits			16. Players' compliant	
			17. Players' satisfaction	

We consider the issues located near or in the top right-hand portion of the matrix to be more important and thus we have provided more comprehensive disclosures in this Report. They include:

ESG Categories	Material Aspects	Section
The Quality of Workplace Environment	1. Equality, diversification and anti-discrimination	Recruiting the Best Talents
	2. Occupational health and safety	Building a Safe Working Environment and Work-life Balance
	3. Training and development	Training and Development
	4. Anti-child and forced labour	Labour Standards
	5. Employee benefits	Recruiting the Best Talents
Environmental Protection and Green Operations	6. Emission management	Reducing Emissions
	9. Green procurement	Supply Chain Management
Operational Practices	11. Anti-corruption	Anti-corruption
Business Operations	18. Intellectual property	Intellectual Property Rights

Sustainable FEIYU

air Employer, Great Place to Work

nvironmentally Friendly

nvestment in Creativity

outh Support and Giving Back to our Society

ndertake Responsibilities

FAIR EMPLOYER, GREAT PLACE TO WORK

Our employees are one of the greatest elements in contributing to the success of Feiyu. Feiyu aims to recruit employees who are passionate in working and those who are imaginative, knowledgeable while experienced at the same time. The adopted human resources policies for compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare have been regularly reviewed to ensure full compliance with applicable legislation and requirements, such as Labour Law of the People's Republic of China ("PRC") (《中華人民共和國勞動法》), Prohibition of Using Child Labour (《禁止使用童工規定》) and the Law on the Prevention and Control of Occupational Diseases of the PRC (《中華人民共和國職業病防治法》).

Employee Overview

Distribution of Employees by Gender

Male: 239 | Female: 148

Distribution of Employees by Job Type

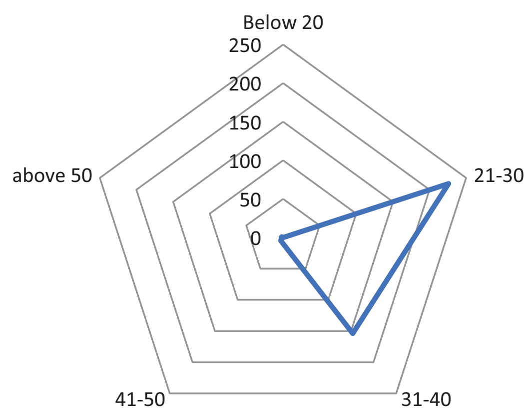
Development **60.4%**

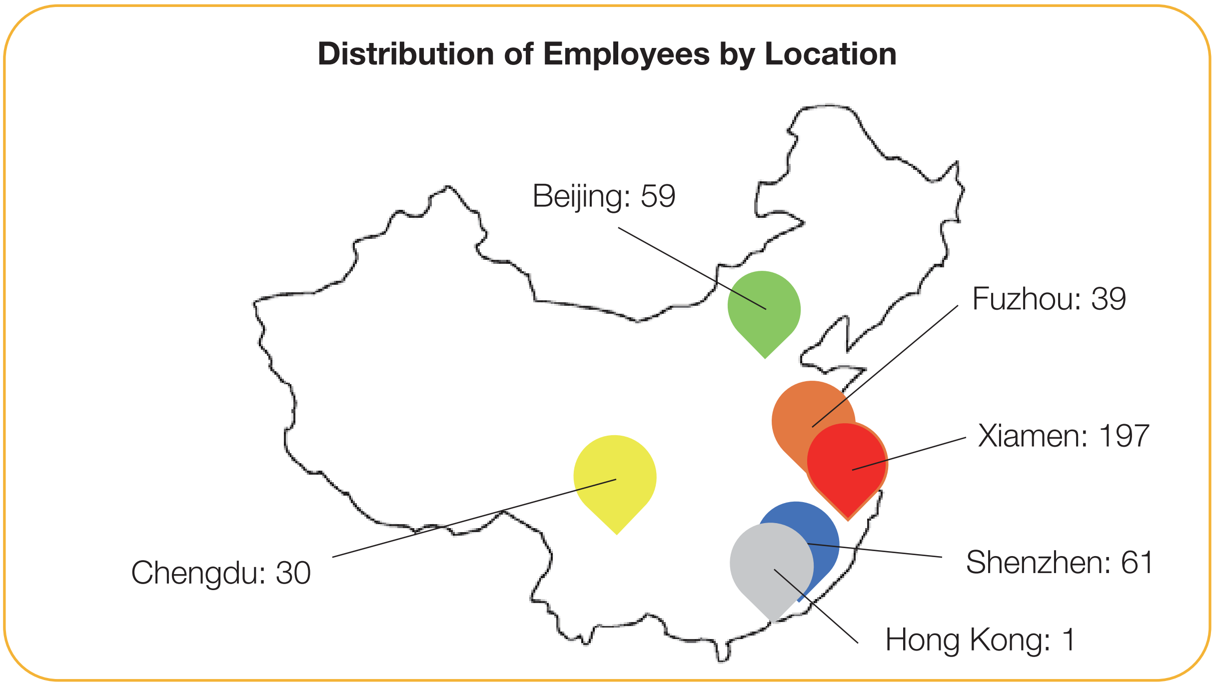
Operations **19.4%**

Sales and Marketing **0.8%**

Administration **19.4%**

Distribution of Employees by Age





Recruiting the Best Talents

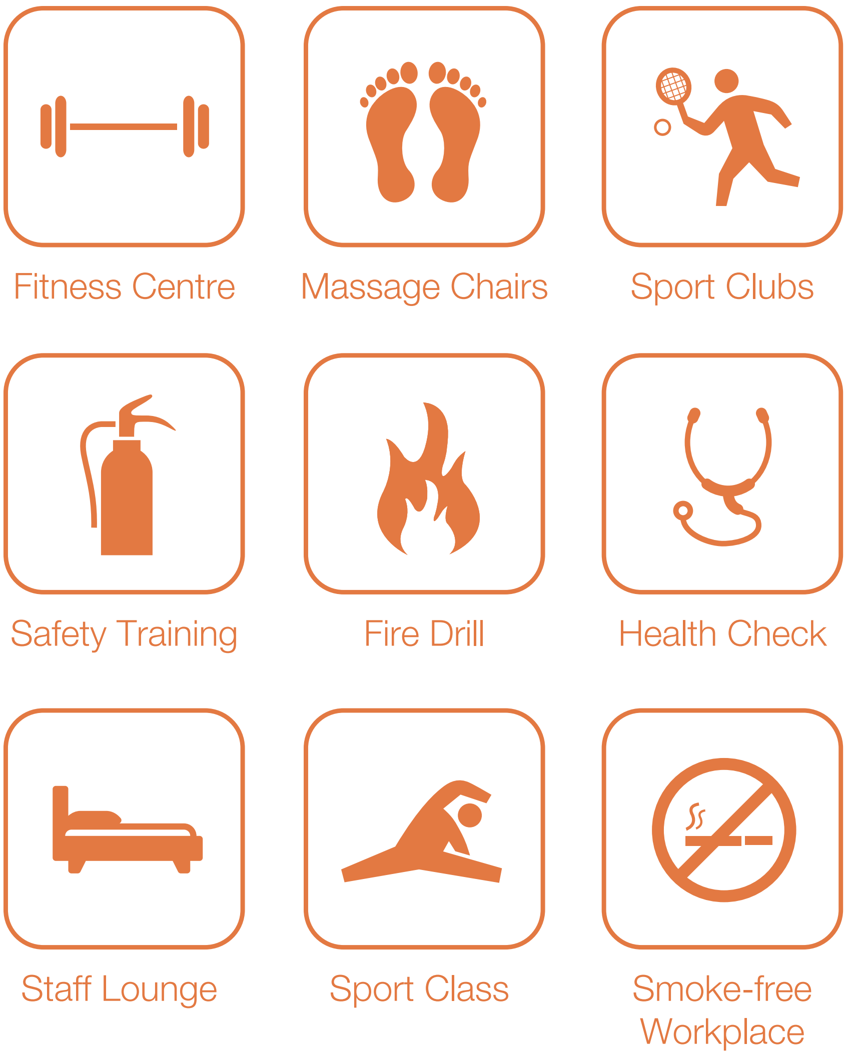
Attracting and retaining employees is vital to the success and development of our business as well as sustainable development. By organizing recruitments through internal and external channels, for example, internet recruitment, campus recruitment, job fair and headhunting companies, Feiyu seeks for the most appropriate candidates and conduct interviews with written tests, aptitude tests and scenario tests.

We actively look for the best talents to join, which is also the reason for us to offer attractive remuneration benefits such as five-day work week, paid annual leave, discretionary bonus, mandatory provident fund scheme, social insurance, transportation allowance, training subsidies and long serving employees' awards.

Feiyu is an employer which offers equal opportunity and abides with the principle of diversity during the entire process of recruitment. We hire employees regardless of their age, gender, nationality, race, family status, and have zero tolerance towards discrimination, harassment or abuse so as to protect the right of every employee.

Building a Safe Working Environment and Work-life Balance

Feiyu treats employees as an important asset, and hence the protection of their social well-being, physical and mental health is one of our main priorities. Some occupational health and safety measures consist of the following:



Moreover, we hold a wide range of internal events for our employees to maintain work-life balance. It is intended to be a way of expression for us to showcase our gratitude for the hard work and effort our employees had contributed to Feiyu for the Year.

Chinese New Year Celebration

11th Anniversary and 48 Hour Game Making Challenge

Women's Day Celebration

Valentine's Day Celebration

Feiyu Walking Challenge

Women's Day Celebration

Dragon Boat Festival Gift

Children's Day Fun Booth

Children's Day Fun Booth

Children's Day Fun Booth

Tanabata Festival Gift

During the Year, the Group was not aware of any cases of injury or death at work and any violations of occupational safely related laws and regulations, including the Law on the Prevention and Control of Occupational Diseases of the PRC (《中華人民共和國職業病防治法》) and other relevant rules and regulations.

Training and Development

Regular trainings can guarantee our employees are updated with the latest technology and market trends. It will benefit the Group in maintaining skilful and knowledgeable employees. Also, it will help employees to build up their careers which can result in a win-win situation for the Group's and personal development purposes. Our trainings are divided into three categories:

Category	Training topic		
Management training	Training for newly promoted management Leadership training Management by objective		
Professional training	Productional training	Research and development skills Case sharing	Game design
New-joiner training	General training	Fresh Feiyu Program (魚苗計劃)	

This Year, the total training hours for our staff was over 1000 hours. Employees who are equipped with knowledge of the latest technology may have a competitive edge when it comes to promotion. Job appraisals would be conducted regularly to decide on promotion opportunities.

Labour Standards

We cherish human rights and protect labor rights. We prohibit any unethical hiring practices, including child and forced labor by conducting identification checks in our hiring process. Our suppliers are also committed to follow our policy in preventing any child or forced labour. During the Year, the Group was not aware of any incidents of non-compliance with the relevant rules and regulations on child or forced labour, including the Law of the PRC on the Protection of Minors (《中華人民共和國未成年人保護法》) and Prohibition of Using Child Labour (《禁止使用童工規定》).

ENVIRONMENTALLY FRIENDLY

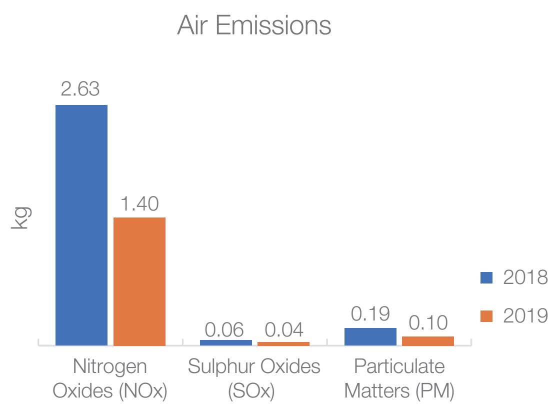
As the Group is principally engaged in the operations and development of web and mobile game, our activities have relatively small impact on the environment and natural resources. We operate under office environment and do not have operations under manufacturing business model which might result in material air or hazardous waste emissions.

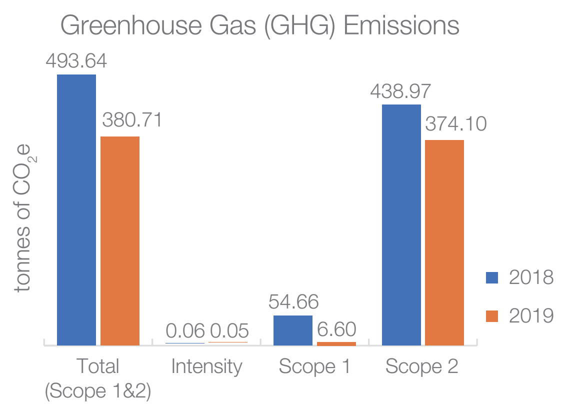
We strictly abide by the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》). We educate our employees in conserving resources and reducing emissions by setting up various measures within the office, which will be further illustrated in the following sections.

Reducing Emissions

Air and Greenhouse Gas Emissions[1]

Under the office environment, our main emissions come from purchased electricity and petrol used by motor vehicles.





Although our operation does not impose material impact to the environment, we have implemented several measures to reduce the carbon emissions:

➢ Introduce video and teleconferencing systems to reduce the number of staff traveling for business trip

➢ Encourage the use of public transport instead of private vehicles

➢ Encourage the use of public shared bikes in Xiamen office

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

Waste Emissions

We had an insignificant amount of hazardous wastes produced from the office activities such as toner cartridges, ink boxes and batteries, but measures have been introduced to ensure that they will be collected properly and transferred to qualified organizations for environmentally friendly disposal. As for non-hazardous waste, it was mostly generated from office general refuse and was collected by a third party which is our building management.

	2019	**2018**
Total waste produced	53.13 tonnes	81.45 tonnes
Intensity of total waste produced (per floor area)	6.67 tonnes	9.63 tonnes
Total waste disposed	45.78 tonnes	76.26 tonnes
Total waste collected for recycling	7.31 tonnes	5.22 tonnes

We strive to reduce the generation of waste by the following initiatives:

➢ Advocate the idea of "paperless office" by promoting the use of electronic communication channels, recycling unwanted paper and duplex printing

➢ Collecting glass bottles of beverages and returning to suppliers

➢ Encouraging employees to bring their own cutleries and cups

Saving Resources

Energy

The energy use involved in the Group's operation includes the consumption of electricity and petrol. The energy consumption data for the Year is shown as below:

	2019	**2018**
Total energy consumption	577.36 MWh	643.55 MWh
Intensity of total energy consumption (per floor area)	72.45 kWh/m^2	76.10 kWh/m^2
Purchased electricity	554.75 MWh	607.06 MWh
Non-renewable fuel	22.61 MWh	36.50 MWh

We increase the energy efficiency by:

➢ Purchase electrical appliances preferably with high-level energy efficient labels

➢ Remind our employees in switching off lights and air-conditioners when they are not in use

Water[2]

Our water consumption throughout the Year was mainly generated from cleaning and sanitation at the office and pantries area. The water consumption data for the Year is shown as below:

	2019	**2018**
Total water consumption	3,830.08 m^3	5,132.09 m^3
Intensity of total water consumption (per floor area)	0.51 m^3/m^2	0.65 m^3/m^2

We save water by:

➢ Installation of effective water flushing system such as the dual flush system; users can choose an option with less water usage when flushing

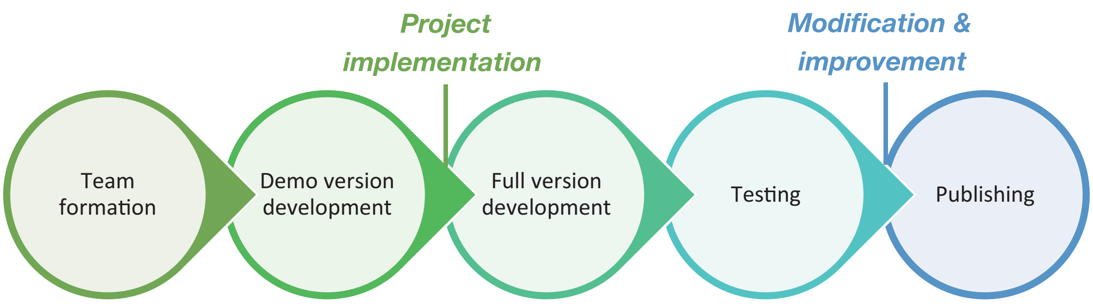
➢ Conduct regular inspection of water leakage so that immediate maintenance can be performed in a timely manner

Since we consumed water from municipal sources, we did not experience any issues in sourcing water during the Year.

2 Since certain property management offices were not able to provide the provision of water supply and sub-meter for individual occupants, the data of water consumption does not include that of Xiamen Veewo Games Co., Ltd. (廈門微沃時刻科技有限公司).

INVESTMENT IN CREATIVITY

Equipped with teams of game enthusiasts and professionals, together with unceasing support from the Group in the investment of research and development, we have adhered to our corporate philosophy of being "marvellously creative with simple way" by developing and publishing numerous new mobile games to cater for various types of players. The below outlines the general process of game development:



As of 31 December 2019, Feiyu has obtained over 300 software copyrights, over 20 patents and over 150 artwork and music copyrights. Besides, it has over 40 published mobile, PC and web games, of which 4 were newly published during the Year.

Feiyu 48-Hour Game Making Challenge

To boost our creativity, we have always set great store by innovations and nurture of our gaming professionals. Apart from abundant training offered to our employees throughout the year, we also hold 48-Hour Game Making Challenge annually, aiming to create a platform for boosting innovations, exchanging knowledge and ideas, as well as gathering our talents together.

The challenge is similar to a hackathon which gives participants 48 consecutive hours to create and produce a game demo. Hackathon is an innovative style of competition which allows team members to collaborate and inspire one another for creative thinking. 35 participants joined the challenge this Year and 15 of them were awarded.

Feiyu 48-Hour Game Making Challenge
Award Ceremony

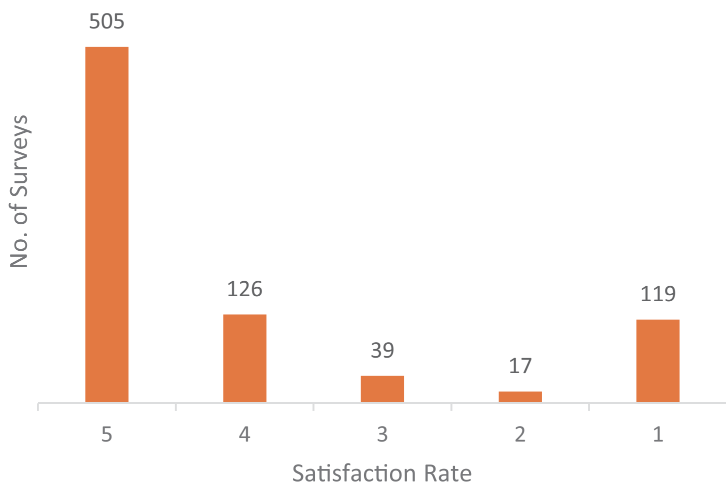
Feiyu 48-Hour Game Making Challenge
During the Challenge

Players' Satisfaction

Understanding and fulfilling players' satisfaction is essential for Feiyu to remain competitive in the market. Apart from observing players' behaviours in enhancing the gaming performance, we notice the need to provide the perfect customer service through setting up a variety of communication channels. We provided both online and offline channels such as the online forum, customer service hotline, mailbox and instant chat rooms in games. These services are provided by our professional and dedicated customer service team. They handle our players' inquiries 24 hours daily. We promised to give response in a timely manner. For cases which are not as urgent, players can also contact us by Weibo and WeChat for assistance. Our game distribution partners will also provide a certain extent of customer service to these players.

During the Year, we had conducted customer satisfaction surveys through an auto-generated surveying system via QQ. Players were requested to rate their satisfaction level of our customer service from 1(very unsatisfied) to 5(very satisfied).

83.13% of a total of 806 participants rated 4 or above



YOUTH SUPPORT AND GIVING BACK TO OUR SOCIETY

We acknowledge the unceasing support from the public, which is why Feiyu always seeks for the best ways to give back to society. Here are the charity events we held in the Year:

Feiyu Student Sponsorship Scheme

The Feiyu Student Sponsorship Scheme which is a continuous project which selects 40 high school students from the Yunnan Province who are in their freshmen year. We evaluate the students based on their academic results and financial conditions. Successful candidates will be financially sponsored for the next 3 years in school to ease their worry about tuition fee. We hope this can help to promote an idea that students should have equal rights to receive the same level of education no matter the financial statuses of their families.

Feiyu Charity Sales

Our 11th Anniversary Charity Sales is representative of our effort in giving back to our community.

Feiyu 11th Anniversary Charity Sales

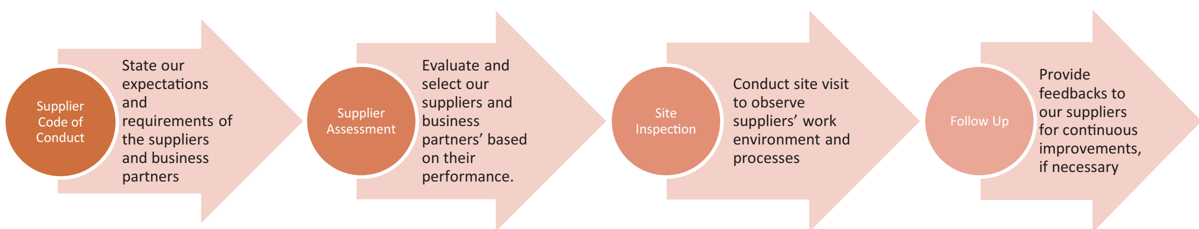
Feiyu 11th Anniversary Charity Sales Products

During the Year, we have successfully raised over RMB24,000 from the charity sales, contributing to a total of RMB50,000 donations to our Feiyu Charity Fund. The fund raised was used as part of the Feiyu Student Sponsorship Scheme.

UNDERTAKE RESPONSIBILITIES

Supply Chain Management

All of our suppliers are located in Mainland China, as we want to uphold green procurement by reducing carbon footprint generated from transportation effectively, we believe this is an appropriate long-term investment in promoting sustainability. Set out below is our supply chain management process:



We have high expectations of our suppliers in aligning with our mission of achieving social and environmental sustainability in our society. In order to ensure the quality of products from these suppliers, we have set up a Supplier Code of Conduct for them to refer to. It also sets as a standard for us to qualify their performance and develop partnership. The set of policies contains topics on issues related to anti-corruption, product and service quality, environmental protection, occupational health and safety etc.

Game Quality, Health and Safety

Feiyu not only cares about players' experience throughout the gaming process, we also pay a high level of attention to players' mental and physical health so that they can enjoy our games without worries. To fully comply with the Implementation on Preventing Minors Being Addicted in Online Games (《關於防止未成年人沉迷網路遊戲的通知》) promulgated in the PRC, we have created a real-name registration system in our online games so as to monitor the involvement in games among underaged players. Besides, we limited the amount of time the underaged players could play and top-up amount. We also set up reminders in our games as well as websites with health and safety messages in reminding the players that they have to take time to rest and relax their eye muscles and body parts after a certain period of time.

In addition, we also care about the quality of games as a high-quality game with smooth game experience is the recipe for the long-term success of the Company and unceasing support from our players. To this end, we pay special attention to the testing session of the entire game development process. It takes around 3 months to conduct 2 sets of testing in general, which involves time domain reflectometry ("TDR") tests, technical docking, basic data tests, product stability tests etc. We will invite certain players to participate to learn about their first-hand experience, in order to develop games from players' perspectives.

Intellectual Property Rights

With a wide range of original games owned by us, we possess numerous intellectual property rights which comprise original characters, settings and audios. To protect our rights, we paid effort in ensuring our patents, copyrights and trademarks are sustained regularly and complied with the Copyright Law of the PRC (《中華人民共和國著作權法》) along with other applicable laws and regulations.

Protect Personal Data Privacy

As our products lie in the virtual world, with participation from players worldwide, we place the utmost importance on the protection of our products, employees and players' account details, payment information and any personal data which may be involved. In the PRC, there are laws pertaining to data protection such as the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) and the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》) that we have to strictly comply with. On top of these laws and regulations, there is an additional intellectual property and privacy protection agreement which our employees have to sign to ensure they acknowledge the rules in keeping related data e.g. programming codes, animation original files, employee information etc. confidential and not passing them onto third parties without consent. Server rooms and other locations which involve users' data can only be reached via fingerprint authorization.

During the Year, we did not receive any complaints in relation to any breaches of client privacy and data loss.

Advertising and Labelling

The Group complied strictly with applicable laws and regulations which are related to the Advertising Law of the PRC (《中華人民共和國廣告法》). We guarantee to our consumers that the advertisements and promotion materials from Feiyu are reliable and contain accurate information. As for the area of labelling, it is not applicable due to the nature of our business.

Anti-corruption

Feiyu has zero-tolerance towards any form of corruption, extortion, money-laundering, fraud and bribery acts in our business. Apart from stringently complying with all relevant laws and regulations, employees are welcome to report anonymously on any suspected illegal acts to the Group via e-mail or other forms of communication channels. We would then investigate reported case in accordance with our whistle-blowing and related policies. Throughout the investigation process, we would ensure the details are kept in strict confidence, and follow-up actions will be made promptly, in the hope of adhering to a positive corporate governance environment and remaining a high degree of transparency in Feiyu's operations.

During the Year, there were no identified corruption case within the Group. Feiyu and its employees were not aware of any non-compliance with relevant laws on corruption, extortion, money-laundering, fraud and bribery acts, such as Criminal Law of the PRC (《中華人民共和國刑法》) and the Anti-unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX

Subject Areas, aspects, general disclosure and key performance indicators (“KPIs”)		**Section**	**Page Number**
A. Environmental			
Aspect A1: Emissions			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Reducing Emissions	P. 43-44
KPI A1.1	The types of emissions and respective emission data.	Reducing Emissions	P. 43-44
KPI A1.2	Greenhouse gas emissions in total and intensity.	Reducing Emissions	P. 43-44
KPI A1.3	Total hazardous waste produced and intensity.	The Group does not generate significant amount of hazardous waste.	N/A
KPI A1.4	Total non-hazardous waste produced and intensity.	Reducing Emissions	P. 43-44
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Reducing Emissions	P. 43-44
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Reducing Emissions	P. 43-44

Aspect A2: Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.		Saving Resources	P. 45
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Saving Resources	P. 45
KPI A2.2	Water consumption in total and intensity.	Saving Resources	P. 45
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Saving Resources	P. 45
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Saving Resources	P. 45
KPI A2.5	Total packaging material used for finished products and with reference to per unit produced.	The Group does not involve any packaging material.	N/A
Aspect A3: Environment and Natural Resources			
General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		The Group does not generate significant impact on the environment and natural resources.	N/A
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	N/A	N/A

B. Social

Employment and Labour Standards

Aspect B1: Employment			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Fair Employer, Great Place to Work	P. 37-42
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employee Overview	P. 37-38
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Not disclosed for the Year.	N/A
Aspect B2: Health and Safety			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		Building a Safe Working Environment and Work-life Balance	P. 39-42
KPI B2.1	Number and rate of work-related fatalities.	Building a Safe Working Environment and Work-life Balance	P. 39-42
KPI B2.2	Lost days due to work injury.	Building a Safe Working Environment and Work-life Balance	P. 39-42
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Building a Safe Working Environment and Work-life Balance	P. 39-42

Aspect B3: Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Training and Development	P. 42
KPI B3.1	The percentage of employees trained by gender and employee category.	Not disclosed for the Year.	N/A
KPI B3.2	The average training hours completed per employee by gender and employee category.	Not disclosed for the Year.	N/A
Aspect B4: Labour Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		Labour Standards	P. 42
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards	P. 42
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Not disclosed for the Year.	N/A
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure Policies on managing environmental and social risks of the supply chain.		Supply Chain Management	P. 50
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management	P. 50
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management	P. 50

Aspect B6: Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Undertake Responsibilities	P. 50-51
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	The Group does not produce any products.	N/A
KPI B6.2	Number of products and service related to complaints received and how they are dealt with.	Not disclosed for the Year.	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property Rights	P. 50
KPI B6.4	Description of quality assurance process and recall procedures.	The Group does not produce any products.	N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Protect Personal Data Privacy	P. 51

Aspect B7: Anti-Corruption General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Anti-corruption	P. 51
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption	P. 51
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption	P. 51
Community			
Aspect B8: Community Investment General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Youth Support and Giving Back to Our Society	P. 49
KPI B8.1	Focus areas of contribution.	Not disclosed for the Year.	N/A
KPI B8.2	Resources contributed to the focus area.	Not disclosed for the Year.	N/A

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this annual report were:

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

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors
YAO Jianjun (**姚劍軍**), aged 38, is a founder of the Group and a Controlling Shareholder. He joined the Group on 12 January 2009 and was appointed as Chairman, Chief Executive Officer and Executive Director on 6 March 2014. He is also the chairman of the Nomination Committee. Mr. Yao is responsible for the overall management and strategic planning and development of the Group. Mr. Yao also sits on the boards of various companies within the Group, including acting as the chairman of Xiamen Guanghuan since 1 January 2011, director of Xiamen Feiyou since 24 June 2014, director of Xiamen Yidou since 3 September 2014, director of Xiamen Zhangxin since 27 October 2014, director of Xiamen Feichang Information Technology Co., Ltd. (廈門飛暢信息科技有限公司) since 5 May 2015, director of Xiamen Xiyu Internet Technology Co., Ltd. (廈門喜魚網絡科技有限公司) since 27 May 2015, director of Xiamen Yufei Xingkong Information Technology Co., Ltd. (廈門魚飛星空信息科技有限公司) since 1 June 2015, director of Milin Feiyu Technology Co., Ltd. (米林飛魚科技有限公司) since 10 July 2015, director of Xiamen Feiyu Wuxian Cultural Media Co., Ltd. (廈門飛魚無限文化傳媒有限公司) since 24 July 2015, director of Jiaxi Global Limited (家喜環球有限公司) since 20 August 2015, director of Beijing Wei'an Haixing Information Technology Co., Ltd. (北京偉岸海星信息科技有限公司) since 21 October 2015, director of Xiamen Haohaowan Information Technology Co., Ltd. (廈門好好玩信息科技有限公司) since 4 January 2016, director of Shenzhen Feiyu Xingkong Technology Company Ltd. (深圳飛魚星空科技有限公司) since 23 February 2017 and director of Shenzhen Feiyu Digital Technology Co., Ltd. (深圳飛魚數字科技有限公司) since 10 July 2017.

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

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

Mr. Yao is a founder of Xiamen Guanghuan. Since August 2013, he has also been the executive director of Xiamen Xianglian, an internet technology development and services company listed on National Equities Exchange and Quotations on 11 January 2017 and delisted on 24 October 2018 and served as its chairman since 11 July 2016, and served as its general manager in charge of its website operation and the overall management from July 2005 to August 2013. Prior to that, from March 2002 to July 2005, Mr. Yao devoted himself to the development of Chinaz.com (站長之家).

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

DIRECTORS AND SENIOR MANAGEMENT

CHEN Jianyu (陳劍瑜), aged 37, joined the Group on 31 December 2013 and was appointed as an Executive Director and President of the Company on 6 March 2014. He is responsible for strategic planning, product research and development, and operations of the Group. Mr. Chen has also been director of Milin Feiyou Technology Co., Ltd. (米林飛遊科技有限公司) since 1 July 2015, director of Beijing Bai Cai Tian Xia Technology Co., Ltd. (previously named as Beijing Feiyu Wuxian Cultural Media Co., Ltd.) since 10 June 2015 and director of Beijing Feiyu Xingkong Technology Co., Ltd. (北京飛魚星空科技有限公司) since 24 August 2015. Mr. Chen is a substantial shareholder of the Company.

Mr. Chen has also acted as director of Beijing Feiyu Interactive Cultural Media Co., Ltd. (北京飛娛互動文化傳媒有限公司), an indirect subsidiary of Xiamen Zhangxin Internet, (a company directly held as to 18.4966%, 30.7177% and 5.7857% equity interests by each of Mr. Yao, Mr. Chen and Mr. Bi Lin as at 31 December 2019) since 5 April 2016, director of Guangzhou Popcorn Animation Technology Co., Ltd. (廣州市爆米花動畫科技有限公司) (an animation company) since 26 August 2016, and director of Guangzhou Big Firebird Cultural Media Co., Ltd. (廣州大火鳥文化傳媒有限公司, an animation company) since 14 September 2017.

Mr. Chen has over 18 years of experience in the internet industry. He has developed and are responsible for developing a number of internet software products, including Shengshengkan Software (省省看公益軟件) (a free power management software for promoting environmental protection concept), IQ Browser (IQ瀏覽器) (an internet browser software) and Meitu Viewer (美圖看看) (an image viewing software).

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

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

BI Lin (**畢林**), aged 38, is a founder of the Group and one of the Controlling Shareholders. He joined the Group on 12 January 2009 and was appointed as an Executive Director and Vice President of the Company on 6 March 2014. He is also a member of the Remuneration Committee. Mr. Bi is in charge of the Group's research and development of web games. Mr. Bi also sits on the boards of various companies within the Group, including acting as director of Feiyu Hong Kong since 25 March 2014, director of Xiamen Guanghuan since 16 August 2011, director of Xiamen Feixin since 1 November 2014, director of Xiamen Guangling since 10 November 2014, director of Xiamen Guangqu Investment Management Co., Ltd. (廈門光趣投資管理有限公司) since 10 November 2014, director of Sea Star Entertainment Co., Limited since 31 December 2018 and director of Xiamen 8384 Information Technology Company Limited (廈門八三八四信息科技有限公司) since 22 February 2019.

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

Mr. Bi has over 15 years of experience in the internet industry. He has been the vice chairman of the Xiamen Animation and Game Industry Association (廈門市動漫遊戲產業協會), an industry association established by Xiamen Software Association (廈門軟件行業協會), from March 2014 to March 2018. He is a co-founder of Xiamen Guanghuan and has served as its executive director and general manager since August 2011, primarily responsible for coordinating management discussions and shareholder meetings on business development plans, operating strategies and investment plans. In April 2007, Mr. Bi co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Lin Jiabin and Mr. Lin Zhibin, both of whom are our Executive Directors and Vice Presidents, and served as its general manager from its inception to December 2008, primarily responsible for its business development. In July 2004, Mr. Bi founded Xiamen Visual Parameters Design Co., Ltd. (廈門視覺參數設計有限公司), a graphics art design company, and served as its general manager from its inception to May 2006, primarily responsible for its business development.

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

LIN Jiabin (**林加斌**), aged 38, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 26 August 2014. He is in charge of the operations of the Group's web and mobile games. Mr. Lin Jiabin also acts as a director of Xiamen Youli since 5 February 2012, primarily responsible for its game marketing and operations, director of Xiamen Fei Xiang Yue Investment Management Co., Ltd. (廈門飛享悅投資管理有限公司) since 9 August 2016, director of Hainan Feiyi Internet Technology Company Limited (海南飛翼網路科技有限公司) which is a newly founded subsidiary of the Company since 8 June 2018, and director of Star Winner Asia Corporation which is a newly founded subsidiary of the Company since 2 October 2018.

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

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

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

DIRECTORS AND SENIOR MANAGEMENT

LIN Zhibin (**林志斌**), aged 38, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as an Executive Director and Vice President of the Company on 26 August 2014. He is in charge of the Group's product design and management.

Mr. Lin Zhibin has also acted as director of Xiamen Talent Talk Interactive Technology Co., Ltd. (廈門聯遠互動科技有限公司) (a wholly foreign-owned enterprise which was established in the PRC with limited liability) since 24 December 2018. Form 26 October 2018 to 18 December 2019, Mr. Lin Zhibin acted as director of Xiamen Xianglian, an internet technology development and services company listed on National Equities Exchange and Quotations on 11 January 2017 and delisted on 24 October 2018.

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

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

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

Independent Non-executive Directors

LIU Qianli (**劉千里**), aged 44, was appointed as an Independent Non-executive Director on 17 November 2014. She is the chairwoman of the Audit Committee and the Remuneration Committee, as well as a member of the Nomination Committee.

Ms. Liu has over 16 years of experience in investment banking and corporate finance. She has been an independent non-executive director of BAIOO Family Interactive Limited, a children's web game developer listed on the Main Board of the Stock Exchange (Stock Code: 2100), since March 2014. From December 2010 to July 2013, Ms. Liu served as the chief financial officer of Phoenix New Media Limited, a media company listed on the New York Stock Exchange (Stock Symbol: FENG). Prior to that, she served as the chief financial officer of China EDU Corp. from October 2008 to November 2010. From June 2007 to August 2008, she served as the chief financial officer of Main One Information Technology Company Ltd. (銘萬信息技術有限公司), an information technology company. Ms. Liu worked as a vice president at Lehman Brothers investment banking in Hong Kong and as an associate at Lehman Brothers investment banking in New York from July 2003 to June 2007.

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

LAI Xiaoling (**賴曉凌**), aged 44, was appointed as an Independent Non-executive Director on 17 November 2014. He is a member of each of the Audit Committee and the Remuneration Committee.

Mr. Lai has over 16 years of experience in investment and business management. He has been a partner of Shunwei Capital (順為資本), a venture capital fund, since January 2018, and is primarily responsible for investment strategy, team formation and management and portfolio management. He has also been an independent non-executive director of Meitu, Inc. (Stock Code: 1357) since 1 January 2019. From June 2013 to December 2017, he was a partner of Innovation Ark (Beijing) Investment Management Consulting Company Limited (創新方舟(北京)投資管理諮詢有限公司), a venture capital fund, primarily responsible for investment strategy, personnel recruitment and training and portfolio management. Between June 2012 and April 2013, he served as a principal for Chengwei Investment Advisory (Shanghai) Co., Ltd. (成為投資諮詢(上海)有限公司), a venture capital fund. From October 2007 to February 2012, he worked as an investment manager and vice president for Morningside TMT (Shanghai) Limited (晨創啟興(上海)投資管理諮詢有限公司), a venture capital fund, primarily responsible for deal sourcing, execution and portfolio management.

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

MA Suen Yee Andrew (**馬宣義**), aged 47, was appointed as an Independent Non-Executive Director on 17 November 2014. He is a member of each of the Audit Committee and the Nomination Committee.

Mr. Ma has over 21 years of experience in investment and business management. He has been with VMS Investment Group (HK) Limited, a member of VMS Group of Companies which is a multi-strategy investment group with businesses covering proprietary investment, asset management, securities broking and corporate finance advisory, serving as a managing director since January 2014 and an executive director from January 2011 to December 2013, primarily responsible for sourcing and executing structured finance and other debt related transactions as well as managing the daily operations of the structured finance team; a senior investment manager from January 2009 to December 2010, primarily responsible for investment deal sourcing and leading the investment team for execution of investment deals; and an analyst from May 2007 to December 2008, primarily responsible for executing and monitoring private equity investment deals. Prior to joining VMS Investment Group, he worked and held various positions in World Family Limited, a distributor and promoter of licensed Disney products, from September 1999 to April 2007, most recently as a senior regional credit & customer relation manager.

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

DIRECTORS AND SENIOR MANAGEMENT

Biographical Details of the Senior Management

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

XU Yiqing (**許藝清**), aged 42, joined our Group on 10 December 2014, and was appointed as one of our vice presidents on the same day. She is responsible for human resources development and administrative and organisational management.

Ms. Xu has over 22 years of corporate management experience in the internet industry and information technology industry. From January 2011 to December 2014, Ms. Xu worked at Xiamen Jizhi Hudong Online Technology Company Limited (廈門極致互動網路技術有限公司), a company which develops and operates online games. She served as the vice general manager and was responsible for human resources, administrative management and strategic planning. From March 2007 to December 2010, Ms. Xu worked at Gillion New Software Co., Ltd. (吉聯新軟體股份有限公司), an information technology and logistics information technology services company, and served as the general manager of its integrated management department. She was responsible for the company's human resources, administrative management and strategic planning. From December 2005 to March 2007, Ms. Xu worked at Xiamen Longtop System Co., Ltd. (廈門東南融通系統有限公司), a company specialising in providing software support and services to financial institutions. She served as the supervisor of the human resources department and was responsible for recruitment and training. From August 1997 to December 2005, Ms. Xu worked at Top (Xiamen) Computer System Co., Ltd. (鼎盛(廈門)電腦系統有限公司), a company specialising in providing software support and services to financial institutions. She was the manager of its human resources and administration department and was responsible for personnel and administrative management.

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

YANG Guangwen (**楊光文**), aged 39, joined our Group on 27 April 2015 and was appointed as one of our vice presidents on 28 April 2015. He is responsible for setting up our Chengdu R&D center and our overall management of production planning, design and development of the games of the Group's subsidiaries in Chengdu.

Mr. Yang has over 17 years of experience in business administration and the internet industry. From April 2014 to April 2015, Mr. Yang worked at Zhuhai Qianyou Technology Company Limited (珠海仟遊科技有限公司), a company which develops online games. He was responsible for the operation of the mobile games and client based games. From October 2013 to March 2014, Mr. Yang served as vice general manager of Xiamen Qingci Shuma Technology Company Limited (廈門青瓷數碼科技有限公司), a company which develops and operates online games and was responsible for the operation of mobile games and development of client-based games. From July 2010 to September 2013, Mr. Yang served as vice general manager of Xiamen Jizhi Hudong Online Technology Company Limited (廈門極致互動網路技術有限公司), a company which develops and operates online games and was responsible for the marketing and operating of web games and client based games. In June 2007, Mr. Yang co-founded Sichuan Huanyou Internet Technology Company Limited (四川環遊網絡科技有限公司), a company which develops Internet-based interactive entertainment products and application softwares and served as general manager from inception to April 2010, primarily responsible for the overall management. Prior to that that, Mr. Yang also served as vice general manager of Sichuan 8760 Internet Technology Company Limited (四川8760網路科技有限公司), a company which develops and operates online games, primarily responsible for the development and operation of E-commerce website and the operation of client based games from July 2002 to May 2007.

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

TU Qin (**涂琴**), aged 38, was appointed as our Chief Operating Officer on 31 October 2017. She is responsible for the operations of the Group's web and mobile games.

Ms. Tu has over 13 years of experience in the internet industry. From August 2006 to March 2014, Ms. Tu worked in the web game distribution department of the interactive entertainment (騰訊互動娛樂) division of Tencent Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 700), which is a leading provider of Internet value-added services in China and was responsible for the management of the distribution of several popular web games. In March 2014, Ms. Tu founded Shenzhen Zhangxin Interactive Technology Co., Ltd. (深圳掌心互動科技有限公司) ("Shenzhen Zhangxin"), a game development company and a 30%-owned associate of the Group since May 2015 and became a subsidiary of the Group after further acquisition of 21% interest in November 2017, where she served as its general manager since establishment and was responsible for its overall management and strategic planning. Since March 2014, Shenzhen Zhangxin has developed several mobile games, out of which an innovative elimination card game was successfully published in overseas markets and Ms. Tu has accumulated extensive experience in overseas distribution of games. In essence, Ms. Tu has devoted herself to the game development, game distribution and game operation in both mainland China and overseas markets and has achieved remarkable success.

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

LUI Mei Ka (**雷美嘉**), aged 35, was appointed as Chief Financial Officer, joint company secretary and authorised representative of the Group on 27 September 2018, and is responsible for the Group's overall financial reporting and management.

Ms. Lui has over 13 years of experience in financial management and corporate finance. She acted as the company secretary and financial controller of LT Commercial Real Estate Limited (Stock code: 112), a company engaged in property development and investment and listed on the Main Board of the Stock Exchange, from 2013 to 2016 and acted as the company secretary and chief financial officer of GR Properties Limited (Stock code: 108), a company engaged in property development and investment and listed on the Main Board of the Stock Exchange, from 2016 to 2018. Prior to that, Ms. Lui also had about seven years of experience in auditing and accounting at Deloitte Touche Tohmatsu from 2006 to 2013.

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

WEI Yulan (**魏郁嵐**), aged 34, joined our Group in July 2014, and was appointed as a joint company secretary of the Company on 27 September 2018. She is currently the financial controller of the Group.

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

Ms. Wei has over 11 years of experience in financial and accounting. She had one-year experience in risk assessment at Xiamen International Bank from 2013 to 2014. She also had about five years of experience in auditing and accounting at KPMG from 2008 to 2013.

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

DIRECTORS AND SENIOR MANAGEMENT

SHENG Xiang (盛翔), aged 42, joined our Group on 3 January 2020, and was appointed as one of our vice presidents and Chief Technology Officer on the same day. He is responsible for the overall management of our platform center and providing technical support for our game development and game operation.

Mr. Sheng has over 16 years of experience in the internet industry. From August 2018 to December 2019, Mr. Sheng served as Chief Software Architect of Yunlizhihui Technology Company Limited (雲粒智慧科技有限公司), a company founded jointly by China Unicom and Alibaba group providing digital transformation solution and was responsible for the architecture design and implementation. From April 2015 to July 2018, Mr. Sheng co-founded Beijing Anybeen Technology Company Limited (北京雲享人生科技有限公司), a software company focus on the mobile internet data service platform and served as its chief technology officer and was responsible for the architecture design and implementation. From May 2011 to April 2015, Mr. Sheng served as senior technical expert of Alibaba Cloud (阿里雲), a business unit of Alibaba Group (NYSE: BABA) providing a comprehensive suite of global cloud computing services to power both international customers' online businesses and Alibaba Group's own e-commerce ecosystem and was responsible for the architecture design and implementation. From October 2007 to May 2011, Mr. Sheng served as the chief technology officer of CNZZ (站長統計) (a website providing statistical services for PRC websites) and was responsible for the overall architecture design and implementation. From September 2005 to October 2007, Mr. Sheng served as R&D manager of 360.com, an international top-level domain under Vodafone (LSE: VOD, NYSE: VOD), a leader in technology communications through mobile, fixed, broadband and TV, and primarily responsible for the development and development of searching engine and the development of 50bang.com. Prior to that, Mr. Sheng served as R&D engineer of 3721 and Yahoo China and responsible for the user center development and product development.

Mr. Sheng graduated from Tongji University (同濟大學) in September 2000, majoring in communication engineering.

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Details of the activities during the year ended 31 December 2019 as required by Schedule 5 of the Companies Ordinance, including a description of the principal risks and uncertainties facing the Group, an indication of likely future development in the Group's business, and the Group's environmental policies and performance, as well as compliance with relevant laws and regulations which have a significant impact on the Company, are set out under the section headed "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this annual report.

Particulars of important events affecting the Company that have occurred since the end of the financial year 2019 if any, can also be found in the section headed "Management Discussion and Analysis" of this annual report. The outlook of the Company's business is also discussed throughout this annual report including in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. An account of the Company's relationships with its key stakeholders is included in the "Report of Directors" and "Environmental, Social and Governance Report" of this annual report.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2019, and the state of the Company's and the Group's financial affairs as at that date are set out on pages 118 to 199 of this annual report.

FINANCIAL SUMMARY

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

USE OF PROCEEDS FROM IPO

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

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

	Net Proceeds from Global Offering			
	Available to utilise		**Utilised (up to 31 December 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%	92,641	–
Establishing and expanding international operations in selected overseas markets	69,480	15%	58,385	11,122
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%	452,080	11,122

Note: The figures above are approximate figures.

As at 31 December 2019, the Group had utilised the net proceeds from the Global Offering of RMB452.1 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 the net proceeds of approximately RMB11.1 million are currently placed with reputable banks as the Group's cash and cash equivalents, and is intended to be used for establishing and expanding our international operations in selected overseas markets, in particular for promoting certain new games planned to be launched by our newly set up overseas game distribution and operation team in the first half of 2020, and the budgeted amount is expected to cover the selling & marketing expenses till the end of 2020.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2019 are set out in the Consolidated Statements of Changes in Equity on page 123 of this annual report. Changes to the reserves of the Company during the year ended 31 December 2019 are set out in Note 36 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves, including the share premium account, available for distribution and calculated in accordance with the Companies Law, amounted to approximately RMB260,725,000 (as at 31 December 2018: RMB260,146,000). Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group and the Company during the year ended 31 December 2019 are set out in Note 13 to the financial statements.

SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

Details of the Company's share capital and share incentive schemes are respectively set out in Notes 26 and 27 to the financial statements and the sections headed "Share Option Schemes" and "Restricted Share Unit Plans" below.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2019 are set out in Note 1 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group consist of individual game players and licensees of games of the Group and the percentage of the aggregate revenue attributable to the Group's five largest customers accounted for approximately 42.4% of the Group's total revenue for the year ended 31 December 2019 and of which, sales from the largest customer, who is our licenced game developer, Hangzhou Zhangpai Technology Company Limited, accounted for approximately 26.3% of the Group's total sales.

During the year ended 31 December 2019, the percentage of the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 17.9% of the Group's cost of sales, among which the largest supplier accounted for approximately 5.9% of the Group's cost of sales.

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

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2019 are set out in Note 24 to the financial statements.

SHARE CAPITAL

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

CHARITABLE DONATIONS

During the year, there was no donation made by the Company (2018: Nil) to not-for-profit organisations.

PERMITTED INDEMNITY PROVISION

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

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

DIRECTORS

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

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

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

In accordance with article 84(1) of the Articles of Association, Messrs. BI Lin, MA Suen Yee Andrew and LAI Xiaoling will retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election thereat.

BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 58 to 66 of this annual report.

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

Save as disclosed in this annual report, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2019 interim report up to the date of this annual report.

DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

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

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

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

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of the Directors and senior management are set out in Note 8 and Note 31 to the financial statements in this annual report. The annual remuneration of the Directors and senior management fell within the following bands:

Remuneration band (RMB)	Number of individuals in year 2019
Below 1,000,000	5
1,000,000–2,000,000	6
2,000,001–3,000,000	1
3,000,001–4,000,000	1
4,000,001–5,000,000	–
Over 5,000,000	–

REMUNERATION POLICY

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

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

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

During the year ended 31 December 2019, the Company considered the relationship with employees was well and the turnover rate is acceptable.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive Directors, namely, Ms. LIU Qianli, Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, has confirmed to the Company their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has reviewed the independence of each of the Independent Non-executive Directors and considers that the Independent Non – executive Directors have been independent from the date of their appointment to 31 December 2019.

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

As at 31 December 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 as set out in Appendix 10 to the Listing Rules were as follows:

Long positions in Shares

Name of Director/ chief executive	Capacity	Number of ordinary shares held (long position)	Approximate percentage of shareholding[7] %
YAO Jianjun	Founder of a Discretionary Trust Interest of Controlled Corporation and Beneficial owner [1 and 2]	489,884,500	31.67
CHEN Jianyu	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 3]	161,538,000	10.44
BI Lin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 4]	112,470,000	7.27
LIN Jiabin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 5]	44,890,500	2.90
LIN Zhibin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 6]	44,890,500	2.90

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

2 These interests represented:

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

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

3 The entire share capital of Fishchen Holdings Limited is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. CHEN (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. CHEN and his family members. Mr. CHEN Jianyu (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 161,538,000 Shares held by Fishchen Holdings Limited pursuant to Part XV of the SFO.

4 The entire share capital of BILIN Holdings Limited is wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. BI (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. BI and his family members. Mr. BI Lin (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 112,470,000 Shares held by BILIN Holdings Limited pursuant to Part XV of the SFO.

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

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

7 The percentage is calculated on the basis of 1,546,943,455 Shares in issue as at 31 December 2019.

Save as disclosed above, as at 31 December 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.

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

As at 31 December 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 Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company.

Long position in Shares

Name of Shareholder	Capacity	Number of Ordinary Shares held (long position)	Approximate percentage of shareholding[7] %
TMF (Cayman) Ltd.[1]	Trustee of the family trusts	1,001,257,955	64.72
YAO Holdings Limited[2]	Beneficial owner	481,399,000	31.12
Jolly Spring International Limited[2]	Interest in a controlled corporation	481,399,000	31.12
Mr. YAO Jianjun[3]	Founder of a discretionary trust Interest in a controlled corporation and Beneficial owner	489,884,500	31.67
Fishchen Holdings Limited[4]	Beneficial owner	161,538,000	10.44
Honour Gate Limited[4]	Interest in a controlled corporation	161,538,000	10.44
Mr. CHEN Jianyu[4]	Founder of a discretionary trust Interest in a controlled corporation	161,538,000	10.44
BILIN Holdings Limited[5]	Beneficial owner	112,470,000	7.27
Rayoon Limited[5]	Interest in a controlled corporation	112,470,000	7.27
Mr. BI Lin[5]	Founder of a discretionary trust Interest in a controlled corporation	112,470,000	7.27
Eastep Holdings Limited[6]	Beneficial owner	145,765,000	9.42
Ace Kingdom Limited[6]	Interest in a controlled corporation	145,765,000	9.42
Mr. SUN Zhiyan[7]	Founder of a discretionary trust Interest in a controlled corporation	165,765,000	10.72

Notes:

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

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

3 These interests represented:

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

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

4 The entire share capital of Fishchen Holdings Limited is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. CHEN Jianyu (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. CHEN and his family members. Mr. CHEN (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 161,538,000 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 112,470,000 Shares held by BILIN Holdings Limited pursuant to Part XV of the SFO.

6 The entire share capital of Eastep Holdings Limited is wholly owned by Ace Kingdom Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Sun Family Trust, which was established by Mr. SUN Zhiyan (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. SUN and his family members. Mr. SUN (as founder of The Sun Family Trust) and Ace Kingdom Limited are taken to be interested in 145,765,000 Shares held by Eastep Holdings Limited pursuant to Part XV of the SFO.

7 These interests represented:

(a) 20,000,000 Shares held directly by Mr. SUN Zhiyan; and

(b) 145,765,000 Shares held by Eastep Holdings Limited. The entire share capital of Eastep Holdings Limited is wholly owned by Ace Kingdom Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Sun Family Trust, which was established by Mr. SUN Zhiyan (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. SUN and his family members. Mr. SUN (as founder of The Sun Family Trust) and Ace Kingdom Limited are taken to be interested in 145,765,000 Shares held by Eastep Holdings Limited pursuant to Part XV of the SFO.

8 The percentage is calculated on the basis of 1,546,943,455 Shares in issue as at 31 December 2019.

Other than as disclosed above, as at 31 December 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Directors' and chief executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporations" above, at no time during the year ended 31 December 2019 and up to the date of this annual report was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or anybody corporate, and none of the Directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save for their respective interests in the Group, none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group at any time during the year ended 31 December 2019 and up to the date of this annual report.

IMPLEMENTATION OF THE DEED OF NON-COMPETITION

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

The Independent Non-executive Directors have conducted an annual review of the implementation of the deed of non-competition and any decision in relation to new business opportunities referred to the Company during the year ended 31 December 2019. There was no particular situation rendering compliance with and implementation of the deed of non-competition questionable.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a Controlling Shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2019 and up to the date of this annual report.

SHARE OPTION SCHEMES

The Company has adopted two share options schemes, namely the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme. The Pre-IPO Share Option Scheme has expired on 5 December 2019.

As at 31 December 2019, there are no longer any outstanding options under the Pre-IPO Share Option Scheme.

The table below sets out details of the movements of the outstanding options granted to senior management and other grantees under the Pre – IPO Share Option Scheme during the year ended 31 December 2019:

					Number of Shares				
Name	**Date of Grant**	**Vesting schedule**	**Option period**	**Exercise price**	**Granted on the date of grant**	**Outstanding as at 1/1/2019**	**Exercised during the year ended 31/12/2019**	**Cancelled/ Lapsed during the year ended 31/12/2019**	**Outstanding as at 31/12/2019**
Senior management									
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)(1)	–
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)(1)	–
Other Grantees									
Aggregate of 120 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	102,960,000	35,742,500	–	(35,742,500)(2)&(3)	–
Total					**105,570,000**				**-**

Notes:

(1) 2,487,000 share options granted to the senior management lapsed by the end of the option period (i.e. 5 December 2019).

(2) 3,375,500 share options granted to other grantees lapsed immediately upon their resignation from the Company during the year ended 31 December 2019.

(3) 32,367,000 share options granted to other grantees lapsed by the end of the option period (i.e. 5 December 2019).

As at 31 December 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 the date of this annual report. As at 31 December 2019, 22,225,000 options granted under the Post-IPO Share Option Scheme, which represented approximately 1.44% and 1.44% of the Shares in issue as at 31 December 2019 and the date of this annual report respectively, were vested to the named grantees.

The table below sets out details of the outstanding options granted to the grantees under the Post-IPO Share Option Scheme and movements during the year ended 31 December 2019:

						Number of Share Options				
Name	Date of Grant	Vesting schedule	Option period	Exercise price	Closing price immediately before the date on which the options were granted	Granted on the date of grant	Outstanding as at 1/1/2019	Exercised during the year ended 31/12/2019	Cancelled/ Lapsed during the year ended 31/12/2019	Outstanding as at 31/12/2019
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
Ms. TU Qin	13/11/2017	1/3 of options on 13 November 2018, 2019 and 2020 respectively	10 years from the date of grant	HK$1.026	HK$1.00	15,000,000[5]	15,000,000	–	–	15,000,000

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Closing price immediately before the date on which the options were granted	Number of Share Options: Granted on the date of grant	Outstanding as at 1/1/2019	Exercised during the year ended 31/12/2019	Cancelled/ Lapsed during the year ended 31/12/2019	Outstanding as at 31/12/2019
Other Grantee										
1 other grantee	5/7/2016	25% of options on 31 December 2016, 2017, 2018 and 2019 respectively	10 years from the date of grant	HK$1.634	HK1.57	1,000,000[2]	1,000,000	–	(1,000,000)[6]	–
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	–	(500,000)[6]	2,700,000
2 other grantees	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	5,000,000[4]	5,000,000	–	(3,500,000)[6]	1,500,000
Total						**34,160,000**				**28,800,000**

Notes:

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

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

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

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

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

(6) 5,000,000 share options granted to other grantees lapsed upon their resignation from the Company during the year ended 31 December 2019.

Summary of the share option schemes

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

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

RESTRICTED SHARE UNIT PLANS

The Company has adopted three RSU plans, namely the Pre-IPO RSU Plan, the Post-IPO RSU Plan and the RSU Plan II. The Pre-IPO RSU Plan, which are not subject to provisions of Chapter 17 of the Listing Rules as they do not involve the grant of options by the Company to subscribe for new Shares. The Pre-IPO RSU Plan and the Post-IPO RSU Plan have both expired on 17 November 2019.

As at 31 December 2019, the Company no longer has any RSUs outstanding under the Pre-IPO RSU Plan and the Post-IPO RSU Plan.

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 31 December 2019 and the date of this annual report respectively. No RSU was granted under the RSU Plan II from the date of its adoption up to the date of this annual report.

Summary of the restricted share unit plans

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

		Pre-IPO RSU Plan	Post-IPO RSU Plan	RSU Plan II
		(iv) Any other person who, in the absolute discretion of the Board, has contributed or will contribute to the Group.		
3.	Maximum number of shares	The total number of Shares subject to the Pre-IPO RSU Plan shall not exceed 13,850,000 Shares, i.e. 1.15% and 0.90% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.	The total number of Shares subject to the Post-IPO RSU Plan shall not exceed 45,000,000 Shares, i.e. 3.75% and 2.91% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.	No Award shall be granted pursuant to the RSU Plan II if as a result of such grant the aggregate number of Shares (being in a board lot or an integral multiple thereof) (or, where cash is awarded in lieu of Shares, the aggregate number of Shares as are equivalent to the amount of cash so awarded) underlying all grants made pursuant to the RSU Plan II (excluding Awards that have lapsed or been cancelled in accordance with the rules of the RSU Plan II) will exceed 3% of the total issued Shares at the relevant date of Shareholders' approval (i.e. 28 May 2018).
		No further award of RSUs could be granted under the Pre-IPO RSU Plan.	If the limit of the Post-IPO RSU Plan is refreshed with prior approval of the Shareholders, the total number of Shares underlying the awards shall not exceed 3% of the number of issued Shares as at the date of approval of the refreshed limit.	If the limit of the RSU Plan II is refreshed with prior approval of the Shareholders, the total number of Shares underlying the awards shall not exceed 3% of the number of issued Shares as at the date of approval of the refreshed limit.
4.	Term of the RSU Plan	It expired on 17 November 2019.	It expired 17 November 2019.	It shall be valid and effective for a period of 10 years commencing from 28 May 2018.
5.	Grant of Award	The Board may grant an award of RSUs any time during the term of the respective RSU Plan on terms and conditions specified by it.	Same as the Pre-IPO RSU Plan	Same as the Pre-IPO RSU Plan

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

MANAGEMENT CONTRACTS

Other than the service agreements and letters of appointment of the Directors, the Company has not entered into any contract with any individuals, firms or corporate entities to manage or regulate the whole or any substantial part of any business of the Company during the year ended 31 December 2019.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a Controlling Shareholder was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at as 31 December 2019 or at any time during the year ended 31 December 2019.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background

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

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

After the Listing, the Company kept implementing its expansion plan in target overseas markets such as Hong Kong, Taiwan, Vietnam, Korea, Thailand and Indonesia. As at 31 December 2019, expenditure amounting to RMB16,842,000 had been incurred in taking steps to satisfy the Qualification Requirement. As at 31 December 2019, the Company had generated revenue from the overseas markets which amounted to RMB4,807,000.

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

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

Particulars of the PRC Operating Entities

Particulars of the PRC Operating Entities as at 31 December 2019 are presented as follows:

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

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

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

Pursuant to the Exclusive Business Cooperation Agreements entered into between Xiamen Feiyou and the PRC Operating Entities, the services provided by Xiamen Feiyou's wholly-owned subsidiaries to the PRC Operating Entities (including provision of technical support and product development services) amounted to an aggregate of approximately RMB87,000 for the year ended 31 December 2019. The above transactions carried out during the year ended 31 December 2019 have been eliminated in the consolidated financial statements of the Group.

The revenue and net loss of the PRC Operating Entities subject to the Contractual Arrangements amounted to approximately RMB50.6 million and RMB52.2 million for the year ended 31 December 2019, respectively. The total assets and total liabilities of the PRC Operating Entities subject to the Contractual Arrangements amounted to approximately RMB395.1 million and RMB290.0 million as at 31 December 2019, respectively.

The Contractual Arrangements which were in place during the year ended 31 December 2019 are as follows:

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

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

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

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

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

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

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

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

Apart from the above, no new Contractual Arrangement was entered into, renewed or reproduced among the Group, PRC Contractual Entities, Xiamen Guanghuan and the Relevant Shareholders during the year ended 31 December 2019.

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

In addition to the foreign ownership restrictions, investment activities in the PRC by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment, which was most recently jointly amended by the Ministry of Commerce and the National Development and Reform Commission on 28 June 2017 and became effective on 28 July 2017 (the "Catalogue") and the Special Management Measures (Negative List) for the Access of Foreign Investment (2019) (《外商投資准入特別管理措施（負面清單）（2019年版）》) promulgated by the Ministry of Commerce and the National Development and Reform Commission on 30 June 2019 and became effective on 30 July 2019 (the "Negative List"). The Catalogue and Negative List contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign invested industries and prohibited foreign investment industries. According to the Catalogue and the Negative List, the webgame business and mobile game business that the Company currently operates are regarded as value-added telecommunications services (except for e-commerce, domestic multi-party communications, storage and forwarding categories, call centers) and internet cultural business (except for music), and fall within the restricted industry category and the prohibited industry category, respectively.

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

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

Impact of the Foreign Investment Law on VIE

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

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

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

Potential Risks to the Group

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

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

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

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

Reasons for using the Contractual Arrangements

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

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

Risk associated with the Contractual Arrangements

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

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

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

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

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

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

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

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

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

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

Mitigation actions taken by the Company

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

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

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

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

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

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

(vii) Although Xiamen Feiyou was not entitled any preferential income tax treatment during the year ended 31 December 2019, it recorded an accumulated loss which can be carried forward against future taxable income. Besides, Xiamen Feiyou will gradually building up a track record of business operations for the purpose of applying qualifications in order to enjoy the preferential tax treatment.

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

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

Waiver from the Stock Exchange

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

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

Material change in relation to the Contractual Arrangements

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

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

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

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

Save as disclosed above, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended 31 December 2019.

Unwinding the Contractual Arrangements

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

However, for the year ended 31 December 2019, none of the Contractual Arrangements have been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements has been removed.

Annual Review

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

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

1. the transactions carried out during the year ended 31 December 2019 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and have been operated so that the revenue generated by the PRC Contractual Entities has been mainly retained by the Group;

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

3. there was no new contract entered into, renewed or reproduced between the Group and the PRC Contractual Entities during the year ended 31 December 2019.

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

A copy of the auditors' letter on the continuing connected transactions of the Group for the year ended 31 December 2019 has been provided by the Company to the Stock Exchange.

RELATED PARTY TRANSACTIONS

The related party transactions which were undertaken in 2019 are set out in Note 31 to the financial statements in this annual report (other than the above-mentioned). For those related party transactions which constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed "Report of Directors – Non-exempt Continuing Connected Transactions") of the Company under the Listing Rules, the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules, where applicable.

None of the related party transactions as disclosed in Note 31 to the financial statements in the annual report constituted connected transactions under the Listing Rules.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for securities transactions by the Directors. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the year ended 31 December 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 noncompliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2019.

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

During the year ended 31 December 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 PUBLIC FLOAT

Based on the information publicly available and to the best of the Directors' knowledge, information and belief on the date of this annual report, the Company has always maintained sufficient public float as required under the Listing Rules for the year ended 31 December 2019 and up to the date of this annual report.

EVENTS AFTER THE REPORTING PERIOD

On 21 January 2020, the Board resolved to grant an aggregate of 112,000,000 Share Options of the Company to 5 senior management of the Company to subscribe for an aggregate of 112,000,000 new Shares in the share capital of the Company under the Post-IPO Share Option Scheme, subject to acceptance. Upon full exercise of the Share Options, the Shares to be allotted and issued thereunder represent approximately 7.24% of the total number of Shares in issue as at the date of grant and approximately 6.75% of the enlarged issued share capital of the Company. For details, please refer to the Company's announcement dated 21 January 2020.

With respect to the outbreak of the COVID-19, the Group has assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this annual report. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impacts on the operation and financial position of the Group.

BOARD COMMITTEES

The Company established each of the Audit Committee, the Remuneration Committee and the Nomination Committee on 17 November 2014. For further details, please refer to pages 102 to 106 of this annual report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. In respect of the year ended 31 December 2019, save as disclosed in this annual report, the Company has complied with all material code provisions in the CG Code.

FINAL DIVIDEND

The Board did not declare a final dividend for the year ended 31 December 2019 (the year ended 31 December 2018: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 22 May 2020 to Wednesday, 27 May 2020, both days inclusive, during which period no transfer of Shares will be effected, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM to be held on Wednesday, 27 May 2020. All transfers of Shares accompanied by the relevant Share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 21 May 2020.

AUDITORS

The Company has appointed Ernst & Young as the auditors of the Company for the year ended 31 December 2019. The consolidated financial statements of the Group for the year ended 31 December 2019 have been audited by Ernst & Young.

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

On behalf of the Board
YAO Jianjun
Chairman

Hong Kong, 7 April 2020

CORPORATE GOVERNANCE REPORT

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

The Company has applied the principles as set out in the CG Code as its own code of corporate governance and confirms that it has complied with all code provisions under the CG Code during the year ended 31 December 2019, save for certain deviations which are explained in the relevant paragraphs in this corporate governance report.

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

The following sets forth a detailed discussion of the corporate governance practices adopted and complied with by the Company during the year ended 31 December 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry with all Directors, the Company confirmed that all members of the Board complied with the Model Code during the year ended 31 December 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 year ended 31 December 2019.

THE BOARD

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

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

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

Biographical details of the Directors are set out on pages 58 to 63 of this annual report. Save as disclosed in this annual report, and to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board.

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

During the year ended 31 December 2019, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules, and the Nomination Committee has reviewed the independence of each Independent Non-executive Director. The Company considers that all of the Independent Non-executive Directors to be independent in accordance with guidelines set out in the Listing Rules as at the date of this annual report.

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

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

ROLES AND RESPONSIBILITIES OF THE BOARD

Management functions and Board delegation

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

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

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

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

Supply of and Access to Information

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

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

Corporate Governance Functions

The Board is responsible for the performance of functions of corporate governance set out in code provision D.3.1 of the CG Code, and the Board reviewed and confirmed it has performed such functions during the year ended 31 December 2019.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

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

BOARD MEETINGS

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

The Board has held 5 Board meetings during the year ended 31 December 2019 for discussing the Group's affairs, reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Group.

The attendance records of each Director at the Board meetings (whether in person or by means of electronic communication) held during the year ended 31 December 2019 are set out below:

Name of the Directors	Attendance/ Number of Board Meeting
Executive Directors:	
Mr. YAO Jianjun	5/5
Mr. CHEN Jianyu	5/5
Mr. BI Lin	5/5
Mr. LIN Jiabin	5/5
Mr. LIN Zhibin	5/5
Independent Non-executive Directors:	
Ms. LIU Qianli	5/5
Mr. LAI Xiaoling	5/5
Mr. MA Suen Yee Andrew	5/5

Pursuant to code provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the independent non-executive Directors without the presence of the executive directors. The Chairman met with the Independent Non-executive Directors (without presence of the other Executive Directors) once during the year ended 31 December 2019 for discussing the investment and strategic planning of the Group.

Practices and Conduct of Meetings

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

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

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

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

The Articles contain a provision requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their close associate(s) has/have a material interest. This provision has been complied with during the year ended 31 December 2019.

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Details of the remuneration of each of the Directors for the year ended 31 December 2019 are set out in Note 8 to the financial statements of this annual report.

SHAREHOLDING INTEREST OF DIRECTORS AND SENIOR MANAGEMENT

For details of the shareholding interest and short positions of the Directors and senior management of the Group, please refer to pages 72 to 73 of this annual report.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

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

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

All Directors participated in professional development training courses arranged by the Group's legal adviser relating to roles, functions and duties of a listed company director, continuing and disclosure obligations of listed companies and its directors, and amendments to the Listing Rules and SFO. A summary of training received by the Directors for the year ended 31 December 2019 according to the records provided by the Directors is as follows:

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

BOARD COMMITTEES

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

Nomination Committee

The Board established the Nomination Committee on 17 November 2014 with written terms of reference in accordance with code provision A.5.2 of the CG Code. As at 31 December 2019 and the date of this annual report, the Nomination Committee comprised three members, the majority of whom were Independent Non-executive Directors. Mr. YAO Jianjun, who is the Chairman of the Board and Executive Director, served as the chairman of the Nomination Committee, and Ms. LIU Qianli and Mr. MA Suen Yee Andrew, both of whom are Independent Non-executive Directors, served as the committee members.

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

Board Diversity

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

During the year ended 31 December 2019, the Nomination Committee reviewed the structure, size and composition of the Board, reviewed the effectiveness of the Board Diversity Policy and its implementation, assessed the independence of the Independent Non-executive Directors, and made the recommendations to the Board on the re-appointment of retiring Directors.

The attendance records of the Nomination Committee meeting held during the year ended 31 December 2019 are set out below:

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

Nomination Policy

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

Selection Criteria

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

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

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

Nomination Procedures

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

- The secretary of the Nomination Committee shall convene a meeting, and invite nominations of candidates from Board members (if any), for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members;

- Proposed candidates will be asked to submit the necessary personal information, together with their written consent to be appointed as a director of the Company and to the public disclosure of their personal data on any documents or relevant website in connection with their nomination or otherwise pursuant to applicable rules and regulatory requirements; recommendation will then be made by the Nomination Committee upon review of the relevant documents for Board's consideration and approval. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary;

- In the context of re-appointment of any existing member(s) of the Board, the Nomination Committee shall make recommendations to the Board for its consideration and recommendation, for the candidates to stand for re-election at a general meeting;

- Please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director of the Company", which is available on the Company's website, for procedures for shareholders' nomination of any candidate for election as a Director; and

- The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

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

Remuneration Committee

The Board established the Remuneration Committee on 17 November 2014 with written terms of reference in compliance with code provision B.1.2 of the CG Code. As at 31 December 2019 and the date of this annual report, the Remuneration Committee comprised three members, the majority of whom are Independent Non-executive Directors. Ms. LIU Qianli, an Independent Non-executive Director, served as chairwoman of the Remuneration Committee, Mr. BI Lin, an Executive Director and Mr. LAI Xiaoling, an Independent Non-executive Directors, served as the committee members.

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

The Remuneration Committee held one meeting during the year ended 31 December 2019 to review, inter alias, (i) the remuneration policy and structure; (ii) the annual remuneration packages of the Executive Directors; and (iii) other matters related to the foregoing.

The attendance records of the Remuneration Committee meetings held during the year ended 31 December 2019 are set out below:

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

Details of the remuneration of each of the Directors for the year ended 31 December 2019 are set out in Note 8 to the financial statements of this annual report.

Audit Committee

The Board established the Audit Committee on 17 November 2014 with written terms of reference in accordance with code provision C.3.3 of the CG Code. The written terms of reference were updated on 28 December 2015 and 27 December 2018 respectively in light of the applicable amendments to the CG Code. As at 31 December 2019 and the date of this annual report, the Audit Committee comprised three members, all of whom are Independent Non-executive Directors. Ms. LIU Qianli, an Independent Non-executive Director with appropriate professional qualifications required under Rule 3.10(2) and 3.21 of the Listing Rules, served as chairwoman of the Audit Committee, and Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, both of whom are Independent Non-executive Directors, served as committee members. The Board considered that the members of the Audit Committee possess sufficient professional knowledge and experience relating to accounting and financial management for discharge of their responsibilities.

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

The Audit Committee held three meetings during the year ended 31 December 2019 to review the annual results of the Group for the year ended 31 December 2018 and the interim results of the Group for the six months ended 30 June 2019 as well as the reports prepared by the external auditors relating to 2019 annual audit and interim review plans and accounting and internal control issues and major findings in the course of audit/review. In addition, it reviewed the Company's compliance with the CG Code and the regulatory and statutory requirements, and the disclosure in this Corporate Governance Report. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors.

The attendance records of the Audit Committee meetings held during the year ended 31 December 2019 are set out below:

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

The Group's annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee on 7 April 2020, and it considered that the said annual results are prepared in accordance with applicable accounting standards, rules and regulations, and appropriate disclosures have been duly made.

REMUNERATION OF EXTERNAL AUDITORS

The statement of the external auditors of the Company, Ernst & Young, about their reporting responsibilities on the financial statements is set out in the independent auditors' report on page 113.

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

During the year ended 31 December 2019, the total fee paid/payable to Ernst & Young in respect of audit services is set out below:

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

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

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2019 which give a true and fair view of the financial position of the Group as well as the operating results and cash flows during that year.

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

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

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

During the year ended 31 December 2019, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

In respect of the year ended 31 December 2019, the Board considered the risk management and internal control system effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management functions of the Group have been identified. During the review, the Board also considered the resources, qualification/experience of staff of the Group's accounting and financial reporting function, and their training and budget to be adequate.

Process used to identify, evaluate and manage significant risks

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

Main Features of Risk Management and Internal Control System

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

The Board

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

The Audit Committee

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

The management

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

The Internal Audit Function

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

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

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

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

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

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

SHAREHOLDERS' RIGHTS

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

Putting Forward Proposals at General Meetings

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

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

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

Convening an Extraordinary General Meeting by Shareholders

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

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

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

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

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

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

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

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

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

GENERAL MEETINGS

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

During the year ended 31 December 2019, one general meeting was held. The attendance record of each Director and joint company secretaries at the general meeting is set out below:

Name	Attendance/ Number of general meeting
Executive Directors:	
Mr. YAO Jianjun	1/1
Mr. CHEN Jianyu	1/1
Mr. BI Lin	1/1
Mr. LIN Jiabin	1/1
Mr. LIN Zhibin	1/1
Independent non-executive Directors:	
Ms. LIU Qianli	1/1
Mr. LAI Xiaoling	1/1
Mr. MA Suen Yee Andrew	1/1
Joint Company Secretaries	
Ms. LUI Mei Ka	1/1
Ms. WEI Yulan	1/1

The forthcoming AGM will be held on Wednesday, 27 May 2020. The notice of the AGM will be sent to the Shareholders at least 20 clear business days before the AGM.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019, the Company has not made any changes to its Memorandum and Articles of Association.

DIVIDEND POLICY

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

JOINT COMPANY SECRETARIES

Ms. LUI Mei Ka, the Chief Financial Officer and Ms. WEI Yulan, the financial controller who has day-to-day knowledge of the Group's affairs have been appointed as joint company secretaries of the Company. All Directors have access to the advice and services of the joint company secretaries to ensure that the Board procedures, and all applicable law, rules and regulations are followed. Biographical details of the joint company secretaries are set out on page 65 of this annual report.

Each of the joint company secretaries has complied with requirements of Rule 3.29 of the Listing Rules by receiving relevant professional training for not less than 15 hours during the year ended 31 December 2019.

INDEPENDENT AUDITOR'S REPORT

EY 安永

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

OPINION

We have audited the consolidated financial statements of Feiyu Technology International Company Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 118 to 199, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of the carrying amount of goodwill	
As at 31 December 2019, the Group reported RMB20,121,000 in goodwill as a result of the previous acquisitions. On an annual basis, the Group assesses the valuation of goodwill which relies on key assumptions and judgements made by management concerning the estimated value of future cash flows, associated discount rates, and growth rates based on their view of future business prospects. The Group's disclosures about goodwill are included in Note 15 to the financial statements.	Our audit procedures included, among others, evaluating the forecast by comparing the forecasts with the historic performance of the respective CGUs and other supporting information. We have also involved our internal valuation experts to assist us in evaluating the assumptions and methodologies used by management, in particular, discount rates and long term growth rates. We also assessed the adequacy of the Group's disclosures in the financial statements of the assumptions to which the outcome of the impairment test is most sensitive.
Fair value measurement of financial assets	
As at 31 December 2019, the Group had investments in financial assets such as certain equity investments designated at fair value through other comprehensive income with a total amount of RMB23,056,000. These investments are classified as level 3 in the fair value hierarchy, as their fair values are measured using valuation techniques with significant unobservable inputs. Fair value measurement can be a subjective area and more so for areas of the market reliant on the model based valuation or with weak liquidity and price discovery. The selection of valuation techniques for these financial assets can be subjective and is so for assumptions. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. The fair value of these investments, valuation techniques and significant unobservable inputs used in the measurement of the fair value of these investments are included in Note 33 to the financial statements.	For certain equity investments designated at fair value through other comprehensive income, we involved our internal valuation experts to assist us in evaluating the valuation techniques against industry practice and valuation guidelines, comparing assumptions used against industry benchmarks, investigating significant differences and performing our own independent valuations where applicable. We also assessed the adequacy of the Group's disclosures in the financial statements of the fair value hierarchy of the investments.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

7 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	112,851	83,250
Cost of sales		(34,781)	(59,479)
Gross profit		78,070	23,771
Other income and gains	5	14,333	33,488
Selling and distribution expenses		(29,257)	(10,629)
Administrative expenses		(75,387)	(60,207)
Research and development costs		(70,448)	(93,633)
Finance costs	7	(2,672)	(1,904)
Other expenses		(670)	(5,179)
Share of losses of associates	17	(1,280)	(2,899)
LOSS BEFORE TAX	6	(87,311)	(117,192)
Income tax expense	10	(1,388)	(2,268)
LOSS FOR THE YEAR		(88,699)	(119,460)
Attributable to:			
Owners of the parent		(80,342)	(107,508)
Non-controlling interests		(8,357)	(11,952)
		(88,699)	(119,460)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic and diluted		RMB(0.05)	RMB(0.07)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
LOSS FOR THE YEAR	**(88,699)**	(119,460)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Debt investments at fair value through other comprehensive income:		
Changes in fair value	**3,426**	(1,690)
Reclassification adjustments for losses included in the consolidated statement of profit or loss	**86**	295
Exchange differences on translation of financial statements	**3,825**	12,015
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**7,337**	10,620
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**12,819**	30,105
Income tax effect	**(1,318)**	(5,238)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**11,501**	24,867
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**18,838**	35,487
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(69,861)**	(83,973)
Attributable to:		
Owners of the parent	**(61,512)**	(71,685)
Non-controlling interests	**(8,349)**	(12,288)
	(69,861)	(83,973)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	110,214	60,680
Right-of-use assets	14	110,804	–
Prepaid land lease payments	14	–	100,797
Goodwill	15	20,121	20,121
Other intangible assets	16	2,898	3,642
Investments in associates	17	28,208	36,067
Prepayments, other receivables and other assets	20	13,781	17,476
Equity investments designated at fair value through other comprehensive income	21	23,056	28,081
Debt investments at fair value through profit or loss	21	150,905	196,194
Debt investments at fair value through other comprehensive income	21	23,955	25,076
Deferred tax assets	18	3,512	4,145
Total non-current assets		487,454	492,279
CURRENT ASSETS			
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	19	32,106	21,980
Prepayments, other receivables and other assets	20	20,302	41,777
Equity investments designated at fair value through other comprehensive income	21	–	108,500
Other current assets		11,650	7,154
Cash and cash equivalents	22	179,218	104,922
Total current assets		243,276	284,333
CURRENT LIABILITIES			
Other payables and accruals	23	84,362	85,168
Interest-bearing bank and other borrowings	24	74,358	83,694
Tax payable		2,960	2,664
Contract liabilities	25	4,352	5,072
Deferred revenue		–	54
Total current liabilities		166,032	176,652
NET CURRENT ASSETS		77,244	107,681
TOTAL ASSETS LESS CURRENT LIABILITIES		564,698	599,960

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	24	52,116	9,340
Deferred tax liabilities	18	62	8,601
Contract liabilities	25	2,785	4,045
Total non-current liabilities		54,963	21,986
Net assets		509,735	577,974
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	1	1
Share premium	26	498,453	498,453
Reserves	28	28,163	88,053
		526,617	586,507
Non-controlling interests		(16,882)	(8,533)
Total equity		509,735	577,974

Yao Jianjun
Director

Chen Jianyu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

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

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Equity-settled share-based payment reserve RMB'000	Other reserves RMB'000	Financial assets revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Treasury shares RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2018	1	498,453	15,995*	146,554*	349,089*	36,418*	32,910*	(492,913)*	-	586,507	(8,533)	577,974
Loss for the year	-	-	-	-	-	-	-	(80,342)	-	(80,342)	(8,357)	(88,699)
Other comprehensive income for the year:												
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	-	-	-	11,501	-	-	-	11,501	-	11,501
Changes in fair value of debt investments at fair value through other comprehensive income, net of tax	-	-	-	-	-	3,512	-	-	-	3,512	-	3,512
Exchange differences on translation of financial statements	-	-	-	-	-	-	3,817	-	-	3,817	8	3,825
Total comprehensive loss for the year	-	-	-	-	-	15,013	3,817	(80,342)	-	(61,512)	(8,349)	(69,861)
Transfer of revaluation reserve upon the disposal of equity investments at fair value through other comprehensive income	-	-	-	-	-	(52,060)	-	52,060	-	-	-	-
Equity-settled share-based payment expenses	-	-	-	1,622	-	-	-	-	-	1,622	-	1,622
Appropriation to statutory reserves	-	-	2,529	-	-	-	-	(2,529)	-	-	-	-
At 31 December 2019	1	498,453	18,524*	148,176*	349,089*	(629)*	36,727*	(523,724)*	-	526,617	(16,882)	509,735

* These reserve accounts comprise the consolidated reserves of RMB28,163,000 (2018: RMB88,053,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(87,311)	(117,192)
Adjustments for:			
Finance costs	7	2,672	1,904
Interest income	5	(5,737)	(8,275)
Dividend income from debt investments designated at fair value through profit or loss	5	(281)	(626)
Other compensation expenses	6	–	2,450
Depreciation of property, plant and equipment	13	3,757	5,026
Depreciation of right-of-use assets	14	4,116	–
Amortisation of intangible assets	16	744	489
(Gain)/loss on disposal of items of property, plant and equipment	6	(697)	11
Equity-settled share-based payment expenses	6	1,622	10,961
Fair value losses/(gains), net:			
Debt investments at fair value through other comprehensive income (transfer from equity on disposal)		86	295
Debt investments at fair value through profit or loss		(492)	(11,167)
Share of losses of associates	17	1,280	2,899
Impairment of other receivables	6	20,509	–
Impairment of goodwill	15	–	3,926
		(59,732)	(109,299)
(Increase)/decrease in accounts receivable and receivables due from third-party game distribution platforms and payment channels		(10,126)	3,521
Decrease/(increase) in prepayments, other receivables and other assets		5,284	(4,364)
Increase in other payables and accruals		4,408	1,268
Increase in other current assets		(4,496)	(4,722)
Decrease in contract liabilities		(2,034)	(6,607)
Cash used in operations		(66,696)	(120,203)
Interest paid		(2,462)	(599)
Interest element of lease rental payments	14	(426)	–
Income tax paid		(2,715)	(927)
Net cash flows used in operating activities		(72,299)	(121,729)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Net cash flows used in operating activities		**(72,299)**	(121,729)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**6,350**	8,268
Dividend received from a debt investment at fair value through profit or loss	5	**281**	626
Purchases of items of property, plant and equipment		**(46,327)**	(31,759)
Proceeds from disposal of items of property, plant and equipment		**779**	33
Purchase of investments		**(393,403)**	(132,293)
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		**108,500**	2,740
Proceeds from disposal of debt investments at fair value through profit or loss		**453,252**	140,591
Proceeds from disposal of debt investments at fair value through other comprehensive income		**4,882**	66,300
Purchase of shareholdings in associates		**(3,000)**	(20,000)
Additions to other intangible assets		**–**	(2,330)
Dividends received from an associate		**–**	200
Net cash flows from investing activities		**131,314**	32,376
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		**–**	2,919
Addition of bank loans		**3,760,943**	3,653,100
Repayment of bank loans		**(3,739,132)**	(3,616,149)
Principal portion of lease payments	14	**(4,345)**	–
Repurchase of shares		**–**	(7,060)
Net cash flows from financing activities		**17,466**	32,810
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**76,481**	(56,543)
Cash and cash equivalents at beginning of year		**104,922**	155,397
Effect of foreign exchange rate changes, net		**(2,185)**	6,068
CASH AND CASH EQUIVALENTS AT END OF YEAR		**179,218**	104,922
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	22	**179,218**	104,922

1. CORPORATE AND GROUP INFORMATION

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

Information about subsidiaries

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

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

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

1. CORPORATE AND GROUP INFORMATION (Continued)

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases – Incentives* and SIC-Int 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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

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-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact 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.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

Financial impact at 1 January 2019
The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	105,328
Decrease in prepaid land lease payments	(100,797)
Decrease in prepayments, other receivables and other assets	(2,755)
Increase in total assets	1,776
Liabilities	
Increase in interest-bearing bank and other borrowings	1,776
Increase in total liabilities	1,776
Decrease in retained profits	–
Decrease in non-controlling interests	–

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

	RMB'000
Operating lease commitments as at 31 December 2018	4,905
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(2,900)
	2,005
Weighted average incremental borrowing rate as at 1 January 2019	6%
Discounted operating lease commitments as at 1 January 2019	1,776
Lease liabilities as at 1 January 2019	1,776

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Except for IFRS 17 which is not relevant to the Group, further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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

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

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

Business combinations and goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

Intangible assets (other than goodwill)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases (applicable from 1 January 2019)
The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets
Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	40 years
Properties	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(b) 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 its incremental borrowing rate at the lease commencement date because 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 the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable before 1 January 2019)

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Simplified approach

For accounts receivable and receivables due from third-party game distribution platforms and payment channels and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include other payables and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) *Game operation*

The Group's online games allow players to play for free. The Group's single player games either allow players to play for free or pay to play. Players can purchase in-game virtual currency, which can be used to obtain in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience. The Group operates its online and single player games through cooperation with various third-party game distribution platforms including online application stores, web-based and mobile game portals and mobile operators and derives its revenue from sales of in-game currency and items. The Group is responsible for providing ongoing updates of new contents, and technical support for the operation of the games. The platforms provide the servers for downloading and hosting the games and are responsible for distribution, marketing, platform maintenance and payment collections from players. Players purchase the Group's in-game currencies through the platforms' own charging systems by remitting the payment directly to the platforms. After deducting the commission charged by the platforms, the platforms remit the rest of net proceeds to the Group. The portion of the proceeds received by the Group is calculated based on the standard price of in-game virtual currencies sold and the agreed share ratio in the contracts with platforms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) Game operation (Continued)

The Group assesses its rights and responsibilities in the cooperation with the platforms to deliver the game experience to the players to determine whether it is principal or agent in the arrangement. If the Group considers it is the principal in the arrangement, revenue is recognised on a gross basis, which is the gross spending by the players. Then the portion charged by the platforms is recorded in selling and distribution expenses as channel costs. If the Group considers it is the agent in the arrangement, revenue is recognised on a net basis, which is the net proceeds from platforms after deducting the portion charged by the platforms.

Certain third-party platforms offer various marketing discounts from time to time to players to encourage spending on these platforms. The actual prices paid by individual players may be lower than the standard prices of virtual currencies. Such marketing discounts are neither available to be tracked reliably nor borne by the Group. For revenue related to these platforms, it is measured at the fair value of the consideration received or receivable, which is the net amount from these third-party platforms.

For online games, the in-game items and premium features, which are purchased by virtual currencies, are considered value-added services and rendered over a pre-specified period or throughout the whole game life. Once the players purchase virtual currencies, the proceeds are recorded in contract liabilities and recognised in revenue after the virtual currencies are used to purchase in-game items or premium features which are either upon consumption or ratably over the practical usage period predetermined in the game. The Group monitors the operational statistics and usage patterns of the virtual items.

For single player games, since they are downloaded and installed on each individual mobile device, the Group does not have the obligation for game maintenance once the game is downloaded and neither has the access to the game data on each mobile device. Revenue is recognised upon the download of the game or purchase of virtual items by players. The cost of providing ongoing technical support for the operation of the games is considered to be insignificant.

(b) Online game distribution

The Group distributes third party developers' games and generates its revenue by charging commission to game developers based on a certain portion of the purchase amount for in-game virtual currencies remitted by players through the Group's charging system. After deducting the commission charged by the Group, the Group remits the rest of the amount to the game developers. Revenue is measured at the amount of the commission and recognised upon the purchase action by players.

(c) Licensing income

The Group receives royalty income from third-party licensees in exchange for the exclusive operation of the Group's self-developed games in certain regions, providing related technical support and the Group's licensing products. The royalty fees include an upfront fee and, in certain cases, an additional fee during the contracted licence period, which is determined based on an agreed amount when accumulated virtual currencies purchased by the players with accounts registered with the third parties exceed certain amounts. The upfront fee is recognised ratably over the contracted licence period. The additional fee is recognised when the actual purchase by the players exceeds the agreed amount in contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(d) Advertising revenue

Online advertising revenue is derived principally from online advertising arrangements. The Group enters into advertising arrangements with advertisers to allow them to place advertisements in particular areas of the Group's games. Advertising revenue from an advertising arrangement is recognised either ratably over the displaying period of the advertisement or upon a particular action by players, i.e., click, download or activate.

(e) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(f) Technical service income

The Group derives revenue from technical services. Technical service revenue is recognised when technical support services are rendered.

(g) Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the Group's right to receive the payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

The Company operates certain share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)
Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding shares is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits
Pension scheme
The group companies operating in Mainland China participate in defined contribution retirement benefit plans organised by the relevant government authorities for its employees in Mainland China and contribute to these plans based on a certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities, The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognised as employee benefit expenses when incurred.

Housing benefits
Employees of the group companies operating in Mainland China participate in government-sponsored housing funds. The Group contributes to these funds based on certain percentages of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the funds are expensed as incurred.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

The functional currency of the Company is the Hong Kong dollar ("HK$"). These financial statements are presented in RMB. In the opinion of the directors, as the Group's operations are mainly in the PRC, the use of RMB as the presentation currency is more appropriate for the presentation of the Group's results and financial position. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)
The functional currencies of certain overseas subsidiaries and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB20,121,000 (2018: RMB20,121,000). Further details are given in note 15.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Fair value of unlisted equity investments

Certain unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 33 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2019 was RMB23,056,000. Further details are included in note 21 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

The Group focuses primarily on the operation and development of web and mobile games in Mainland China. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Information about geographical areas

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

Information about a major customer

Revenue from continuing operations of approximately RMB29,687,000 (2018: Nil) was derived from a single customer for game operation.

5. REVENUE, OTHER INCOME AND GAINS

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

	2019 RMB'000	2018 RMB'000
Type of goods or services		
Online web and mobile games	51,700	64,905
Single-player mobile games	7,526	4,045
Game operation	59,226	68,950
– Gross basis	6,059	8,906
– Net basis	53,167	60,044
Online game distribution	30,885	940
Licensing income	10,487	6,875
Advertising revenue	11,430	6,169
Sale of goods	59	14
Technical service income	764	302
Total revenue from contracts with customers	112,851	83,250
Timing of revenue recognition		
Services transferred over time	10,487	6,875
Services and goods transferred at a point of time	102,364	76,375
Total revenue from contracts with customers	112,851	83,250
Other income		
Government grants	6,287	13,125
Interest income	5,737	8,275
Rental income	450	–
	12,474	21,400
Gains		
Fair value gains, net:		
Financial assets	406	10,872
Dividend income from debt investments designated at fair value through profit or loss	281	626
Gain on disposal of items of property, plant and equipment	716	4
Others	456	586
	1,859	12,088
	14,333	33,488

6. LOSS BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000
Channel costs		2,246	3,265
Rental fee		5,684	11,470
Depreciation of property, plant and equipment	13	3,757	5,026
Depreciation of right-of-use assets	14(a), 14(b)	4,116	–
Amortisation of intangible assets	16	744	489
Impairment of goodwill*		–	3,926
Impairment of financial assets included in prepayments, other receivables and other assets	20	20,509	–
Advertising expenses		25,233	5,067
Auditor's remuneration		2,100	2,100
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		85,030	105,707
Pension scheme contributions		7,215	12,819
Equity-settled share option expense		1,622	10,961
Other compensation expenses		–	2,450
		93,867	131,937
Foreign exchange differences, net*		481	173
(Gain)/loss on disposal of items of property, plant and equipment, net		(697)	11

* These expenses are included in "Other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans	2,246	1,904
Interest on lease liabilities	426	–
	2,672	1,904

8. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Fees	**2,904**	2,893
Other emoluments:		
Salaries, allowances and benefits in kind	**2,098**	2,075
Performance related bonuses	**231**	270
Pension scheme contributions	**274**	182
	5,507	5,420

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 RMB'000	2018 RMB'000
Mr. Lai Xiaoling	**264**	263
Ms. Liu Qianli	**264**	263
Mr. Ma Suen Yee Andrew	**264**	263
	792	789

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019					
Executive directors					
Mr. Yao Jianjun *(chief executive)*	–	–	–	113	113
Mr. Bi Lin	528	729	61	44	1,362
Mr. Chen Jianyu	528	521	100	61	1,210
Mr. Lin Zhibin	528	424	35	28	1,015
Mr. Lin Jiabin	528	424	35	28	1,015
	2,112	2,098	231	274	4,715

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018					
Executive directors					
Mr. Yao Jianjun *(chief executive)*	–	–	–	3	3
Mr. Bi Lin	526	714	60	48	1,348
Mr. Chen Jianyu	526	521	140	57	1,244
Mr. Lin Zhibin	526	420	35	37	1,018
Mr. Lin Jiabin	526	420	35	37	1,018
	2,104	2,075	270	182	4,631

Except for the chief executive, Mr. Yao Jianjun, there was no other arrangement under which a director waived or agree to waive any remuneration during this year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include one director (2018: five non-director employees), details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining four (2018: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	4,306	4,445
Performance related bonuses	1,738	1,285
Equity-settled share-based payment expenses	2,216	7,874
Pension scheme contributions	213	204
	8,473	13,808

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	2	–
HK$2,500,001 to HK$3,000,000	–	–
HK$3,000,001 to HK$3,500,000	–	3
HK$3,500,001 to HK$4,000,000	1	1
HK$4,000,001 to HK$4,500,000	–	–
HK$4,500,001 to HK$5,000,000	–	–
HK$5,000,001 to HK$5,500,000	–	–
HK$5,500,001 to HK$6,000,000	–	–
HK$6,000,001 to HK$6,500,000	–	1
	4	5

During the year, share-based payments were made to three non-director highest paid employees in respect of their services to the Group (2018: five), further details of which are included in the disclosures in note 27 to the financial statements. The fair value of share-based payments, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

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

Under the relevant income tax law, the PRC subsidiaries were subject to income tax at a statutory rate of 25% for the year on their respective taxable income, except for, Xiamen Guangling and Xiamen Feixin which were certified as Software Enterprises and are exempted from income tax for two years starting from the first year in which they generated taxable profit, followed by a 50% reduction for the next three years. 2015 and 2016 were the first profitable years for Xiamen Guangling and Xiamen Feixin, respectively. Xiamen Youli, Kailuo Tianxia and Xiamen Yidou were qualified as High and New Technology Enterprises ("HNTEs") and entitled to a preferential income tax rate of 15% in 2019.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB423,301,000 at 31 December 2019 (2018: RMB409,239,000).

	2019 **RMB'000**	2018 RMB'000
Current tax expense	**2,992**	1,766
Deferred tax (note 18)	**(1,604)**	502
Total tax expense for the year	**1,388**	2,268

10. INCOME TAX (Continued)

A reconciliation of the tax credit or expense applicable to loss before tax using the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax credit or expense at the effective tax rate is as follows:

	2019 RMB'000	2018 RMB'000
Loss before tax	(87,311)	(117,192)
Tax at the applicable tax rate	(20,268)	(27,896)
Lower tax rates enacted by local authorities	(1,316)	(2,811)
Expenses not deductible for tax	555	5,120
Other tax credit	(8,001)	(10,961)
Income not subject to tax	(76)	(971)
Tax losses utilised from previous years	(2,703)	(1,078)
Deferred tax assets not recognised	33,197	40,865
Tax expense	1,388	2,268

11. DIVIDENDS

The Board does not recommend the payment of a final dividend to the ordinary equity holders of the Company for the year ended 31 December 2019 (for the year ended 31 December 2018: Nil).

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,546,943,455 (2018: 1,539,526,550) in issue during the year, as adjusted to reflect the share issuance, repurchase and treasury shares on hand during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the impact of the share options outstanding had an anti-dilution effect in the basic loss per share amounts presented.

13. PROPERTY, PLANT AND EQUIPMENT

	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019					
At 31 December 2018 and at 1 January 2019:					
Cost	14,027	10,500	12,890	53,307	90,724
Accumulated depreciation and impairment	(11,120)	(7,582)	(11,342)	–	(30,044)
Net carrying amount	2,907	2,918	1,548	53,307	60,680
At 1 January 2019, net of accumulated depreciation and impairment	2,907	2,918	1,548	53,307	60,680
Additions	394	751	350	51,878	53,373
Disposals	(27)	(55)	–	–	(82)
Depreciation provided during the year	(1,313)	(1,101)	(1,343)	–	(3,757)
At 31 December 2019, net of accumulated depreciation and impairment	1,961	2,513	555	105,185	110,214
At 31 December 2019:					
Cost	14,274	9,990	13,240	105,185	142,689
Accumulated depreciation and impairment	(12,313)	(7,477)	(12,685)	–	(32,475)
Net carrying amount	1,961	2,513	555	105,185	110,214

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018					
At 31 December 2017 and at 1 January 2018:					
Cost	12,643	10,020	12,812	4,625	40,100
Accumulated depreciation and impairment	(9,533)	(6,434)	(10,036)	–	(26,003)
Net carrying amount	3,110	3,586	2,776	4,625	14,097
At 1 January 2018, net of accumulated depreciation and impairment	3,110	3,586	2,776	4,625	14,097
Additions	1,815	480	676	48,682	51,653
Disposals	(44)	–	–	–	(44)
Depreciation provided during the year	(1,974)	(1,148)	(1,904)	–	(5,026)
At 31 December 2018, net of accumulated depreciation and impairment	2,907	2,918	1,548	53,307	60,680
At 31 December 2018:					
Cost	14,027	10,500	12,890	53,307	90,724
Accumulated depreciation and impairment	(11,120)	(7,582)	(11,342)	–	(30,044)
Net carrying amount	2,907	2,918	1,548	53,307	60,680

14. LEASES

The Group as a lessee

The Group has lease contracts of properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 2 and 5 years.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	106,307
Recognised in profit or loss during the year	(2,755)
Carrying amount at 31 December 2018	103,552
Analysed into:	
Current portion	2,755
Non-current portion	100,797

As at 31 December 2018, the prepaid lease payments were pledged to a bank to secure a long term advance facility granted to the Group (note 24).

(b) Right-of-use-assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	Properties RMB'000	Total RMB'000
As at 1 January 2019	103,552	1,776	105,328
Additions	–	12,347	12,347
Depreciation charge	(2,755)	(4,116)	(6,871)
As at 31 December 2019	100,797	10,007	110,804

14. LEASES (Continued)

The Group as a lessee (Continued)

(c) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2019 Lease liabilities RMB'000
Carrying amount at 1 January	1,776
New leases	12,347
Accretion of interest recognised during the year	426
Payments	(4,771)
Carrying amount at 31 December	9,778
Analysed into:	
Current portion	4,432
Non-current portion	5,346

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	426
Depreciation charge of right-of-use assets	4,116
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	5,684
Total amount recognised in profit or loss	10,226

15. GOODWILL

	RMB'000
Cost at 1 January 2018, net of accumulated impairment	24,047
Impairment during the year	(3,926)
At 31 December 2018	20,121
At 31 December 2018	
Cost	432,278
Accumulated impairment	(412,157)
Net carrying amount	20,121
Cost at 1 January 2019, net of accumulated impairment	**20,121**
Impairment during the year	**–**
At 31 December 2019	**20,121**
At 31 December 2019	
Cost	**432,278**
Accumulated impairment	**(412,157)**
Net carrying amount	**20,121**

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Veewo cash-generating unit
- Sanguo Zhiren cash-generating unit
- Shenzhen Zhangxin cash-generating unit

15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

The recoverable amounts of the above cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the board of directors. The discount rates applied to the cash flow projections are 21% to 22% (2018: 21% to 31%). The growth rate used to extrapolate the cash flows of the relevant games beyond the five-year period is 3%. The carrying amount of goodwill allocated to each cash-generating unit is as follows:

	2019 RMB'000	2018 RMB'000
Veewo cash-generating unit	11,040	11,040
Shenzhen Zhangxin cash-generating unit	8,694	8,694
Sanguo Zhiren cash-generating unit	387	387
Carrying amount of goodwill	20,121	20,121

Assumptions were used in the value in use calculation of the cash-generating units for the years ended 31 December 2019 and 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted income – The budgeted income includes estimated income from existing games and games in the pipeline, taking into account game popularity, income patterns in the game life cycle and the Group's strategy in operation. The Company believes this budgeted income is justified given the strong game development capability and experience of games, the cooperation with major third-party distribution platforms and the successful record of developing its games.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

16. OTHER INTANGIBLE ASSETS

	Software RMB'000	Game intellectual properties and licences RMB'000	Total RMB'000
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation and impairment	1,570	2,072	3,642
Amortisation provided during the year	(226)	(518)	(744)
At 31 December 2019	1,344	1,554	2,898
At 31 December 2019:			
Cost	6,041	76,966	83,007
Accumulated amortisation and impairment	(4,697)	(75,412)	(80,109)
Net carrying amount	1,344	1,554	2,898
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation and impairment	1,801	–	1,801
Additions	–	2,330	2,330
Amortisation provided during the year	(231)	(258)	(489)
At 31 December 2018	1,570	2,072	3,642
At 31 December 2018:			
Cost	6,041	76,966	83,007
Accumulated amortisation and impairment	(4,471)	(74,894)	(79,365)
Net carrying amount	1,570	2,072	3,642

17. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Shares of net (liabilities)/assets	(220)	823
Goodwill on acquisition	28,428	35,244
	28,208	36,067

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

	2019 RMB'000	2018 RMB'000
Share of the associates' losses for the year	(1,280)	(2,899)
Aggregate carrying amount of the Group's investments in the associates	28,208	36,067

18. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Fair value adjustments of debt investments at fair value through profit or loss RMB'000	Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000	Contract liabilities/ deferred revenue RMB'000	Accruals RMB'000	Total RMB'000
At 1 January 2018	–	–	720	564	1,284
Deferred tax credited to other comprehensive income during the year	–	2,856	–	–	2,856
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	–	–	28	(23)	5
At 31 December 2018	–	2,856	748	541	4,145
At 1 January 2019	–	2,856	748	541	4,145
Deferred tax credited to other comprehensive income during the year	–	(1,730)	–	–	(1,730)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	18	–	(383)	1,462	1,097
At 31 December 2019	18	1,126	365	2,003	3,512

18. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

Deferred tax assets have not been recognised in respect of tax losses of RMB541,227,000 as at 31 December 2019 (2018: RMB383,254,000), as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax liabilities

	Fair value adjustments of a debt investment at fair value through profit or loss RMB'000	Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2018	–	–	–
Deferred tax credited to the statement of profit or loss during the year (note 10)	507	–	507
Deferred tax credited to other comprehensive income during the year	–	8,094	8,094
At 31 December 2018	507	8,094	8,601

	Fair value adjustments of a debt investment at fair value through profit or loss RMB'000	**Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000**	**Total RMB'000**
At 1 January 2019	**507**	**8,094**	**8,601**
Deferred tax charged to the statement of profit or loss during the year (note 10)	**(507)**	**–**	**(507)**
Deferred tax credited to other comprehensive income during the year	**–**	**(8,032)**	**(8,032)**
At 31 December 2019	**–**	**62**	**62**

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

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

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

	2019 RMB'000	2018 RMB'000
Within 3 months	32,106	21,980

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's accounts receivable and receivables due from third-party game distribution platforms and payment channels using a provision matrix:

As at 31 December 2019

		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
Expected credit loss rate	–	–	–	–	–
Gross carrying amount (RMB'000)	32,106	–	–	–	32,106
Expected credit losses (RMB'000)	–	–	–	–	–

As at 31 December 2018

		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
Expected credit loss rate	–	–	–	–	–
Gross carrying amount (RMB'000)	21,980	–	–	–	21,980
Expected credit losses (RMB'000)	–	–	–	–	–

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Non-current		
Prepayments	13,345	14,697
Prepaid land lease payments related deposits	1,605	1,605
Other receivables	3,436	1,174
	18,386	17,476
Impairment allowance	(4,605)	–
	13,781	17,476
Current		
Prepayments	7,486	11,786
Deposits	6,404	11,517
Other receivables	22,316	18,474
	36,206	41,777
Impairment allowance	(15,904)	–
	20,302	41,777

The movements in the loss allowance for impairment of other receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	3,000	3,000
Impairment losses recognised	20,509	–
At end of year	23,509	3,000

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. Except for prepayments, other receivables and other assets amounting to RMB23,509,000 (2018: Nil) included in the above balances, the above assets are neither past due nor impaired. Other than the aforementioned impaired receivables, the financial assets included in the above balances related to receivables for which there was no recent history of default.

21. 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

	Notes	2019 RMB'000	2018 RMB'000
Debt investments at fair value through other comprehensive income			
Straight bonds	(1)	23,955	25,076
Equity investments designated at fair value through other comprehensive income			
Equity investments, at fair value	(2)		
Non-current		23,056	28,081
Current		–	108,500
		23,056	136,581
Debt investments at fair value through profit or loss			
Unlisted debt investments, at fair value	(3)	37,642	44,045
Convertible bond	(4)	14,286	13,738
Convertible preferred shares	(5)	–	43,588
Investment in life insurance policies	(6)	98,977	94,823
		150,905	196,194

21. 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 BEA 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). On 7 November 2019, the remaining part of the above straight bond with an aggregated nominal amount of US$700,000 was fully redeemed by BEA in advance of the maturity date at an aggregated consideration of US$700,000 (equivalent to approximately RMB4.9 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, the Group disposed certain of the underlying investment under partnership agreement. The fair value on the date of disposal was RMB16,440,000.

During the year ended 31 December 2019, the Group received dividends in the amount of RMB281,000 from Future Capital Discovery Fund II, L.P..

(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.

21. 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)

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.

(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 10 December 2019, the above convertible preferred shares with an aggregate nominal amount of US$5,000,000 were fully redeemed by ICBC in advance of the maturity date at an aggregate consideration of US$5,000,000 (equivalent to approximately RMB35.2 million).

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

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

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

As at 31 December 2019, the insurance premium was pledged to a bank to secure a short term advance facility granted to the Group (note 24).

22. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	179,218	104,922
Cash and cash equivalents	179,218	104,922
Denominated in HK$	4,027	34,085
Denominated in RMB	125,967	63,101
Denominated in GBP	686	–
Denominated in US$	48,538	7,736
Cash and cash equivalents	179,218	104,922

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

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

23. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Salaries and welfare payables	38,698	41,771
Other payables and accruals	44,317	41,942
Other tax payables	1,288	1,389
Advance from customers	59	66
	84,362	85,168

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			1 January 2019	31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Bank loans-secured	3.776	Weekly renewable	60,586	57,408	4.413	Weekly renewable	57,408
	–	–	–	26,286	2.683	Weekly renewable	26,286
Bank loans - secured	5.047	2020	9,340	–	–	–	–
Lease liabilities	6.000	2020	4,432	1,363	–	–	–
			74,358	85,057			83,694
Non-current							
Bank loans - secured	5.047	2021	9,120	9,340	5.047	2020	9,340
	5.047	2022	7,960	–	–	–	–
	5.047	2023	6,370	–	–	–	–
	5.047	2023	4,150	–	–	–	–
	5.050	2024	13,690	–	–	–	–
	5.050	2025	5,480	–	–	–	–
Lease liabilities	6.000	2021-2022	5,346	413	–	–	–
			52,116	9,753			9,340
			126,474	94,810			93,034

24. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**74,358**	83,694
In the second year	**13,029**	9,340
In the third to fifth years, inclusive	**33,607**	–
Beyond five years	**5,480**	–
	126,474	93,034

Notes:

(a) The Group's short term loan facility amounted to US$20,000,000 (2018: US$20,000,000), of which HK$67,656,000 (equivalent to approximately US$8.7 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 life insurance policies (note 21). The period of the loan is one month and renewable on a weekly basis.

(b) The Group's long term loan facility amounted to RMB120,000,000 (2018: RMB120,000,000), of which RMB56,110,000 (2018: RMB9,340,000) had been drawn as at the end of the reporting period, and is secured by the Group's prepaid land lease payments (note 14). The loan will be repaid year by year in accordance with the contracts.

25. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2019 and 1 January 2019 are as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Short-term advances received		
Online web and mobile games	**3,229**	1,330
Licensing income	**1,123**	3,742
	4,352	5,072
Long-term advances received		
Online web and mobile games	**129**	124
Licensing income	**2,656**	3,921
Total contract liabilities	**7,137**	9,117

Contract liabilities mainly represented prepaid unconsumed virtual currencies, virtual items from players and the remaining upfront license fees for online game services from game distribution platforms, for which the related services had not been rendered as at 31 December 2019. Contract liabilities in relation to operations of online games were previously included in deferred revenue (approximately RMB9,117,000 as at 1 January 2019).

26. SHARE CAPITAL

Shares

	2019	2018
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

A summary of movements in the Company's share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2018	1,546,901,955	1	490,934	490,935
RSUs exercised	7,000,000	–	7,616	7,616
Share options exercised	6,066,000	–	9,869	9,869
Cancellation of repurchased shares (a)	(13,024,500)	–	(9,966)	(9,966)
At 31 December 2018	1,546,943,455	1	498,453	498,454
At 31 December 2019	1,546,943,455	1	498,453	498,454

(a) Repurchase of shares

The Company cancelled 13,024,500 repurchased shares with a carrying amount of RMB9,966,000 during the year 2018.

27. EQUITY-SETTLED SHARE-BASED PAYMENTS

(1) Share option schemes

The Company approved and adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a post-IPO share option scheme (the "Post-IPO Share Option Scheme", together as the "Schemes") pursuant to shareholders' written resolutions and directors' written resolution passed on 17 November 2014. The purpose of the Schemes is to provide rewards to eligible participants for their service to the Group. Eligible participants include any full-time employees, consultants, executives or officers of the Company and any of its subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to the Group.

The total number of ordinary shares subject to the Pre-IPO Share Option Scheme is 105,570,000. On 17 November 2014, under the Pre-IPO Share Option Scheme, share options were granted to 2 members of senior management and 120 other employees to subscribe for 105,570,000 shares at an exercise price of HK$0.55 per share. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 31 December 2015, 2016, 2017 and 2018, respectively. Each option granted if not exercised subsequently expired on 5 December 2019.

The maximum number of shares to be issued upon exercise of all share options to be granted under the Post-IPO Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 150,000,000 shares and 30% of the shares of the Company in issue from time to time. On 27 March 2017, under the Post-IPO Share Option Scheme, share options were granted to employees to subscribe for 10,160,000 shares at an exercise price of HK$1.256 per share. 7,160,000 share options granted will be vested equally in four tranches as to 25% of the number of shares on 31 December 2017, 2018, 2019 and 2020, respectively. 3,000,000 share options granted will be vested in three tranches as to 50%, 25% and 25% of the number of shares on 30 June 2017, 2018 and 2019, respectively. Each option granted if not exercised subsequently will expire on 26 March 2027. On 15 May 2017, under the Post-IPO Share Option Scheme, share options were granted to employees to subscribe for 5,000,000 shares at an exercise price of HK$1.1 per share. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 15 May 2018, 2019, 2020 and 2021, respectively. Each option granted if not exercised subsequently will expire on 14 May 2027. On 13 November 2017, under the Post-IPO Share Option Scheme, share options were granted to one member of senior management to subscribe for 15,000,000 shares at an exercise price of HK$1.026 per share. All share options granted will be vested equally in three tranches as to 33% of the aggregate number of shares on 13 November 2018, 2019 and 2020, respectively. Each option granted if not exercised subsequently will expire on 12 November 2027.

27. EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

(1) Share option schemes (Continued)

The following share options were outstanding under the Schemes during the year:

	2019		2018	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	0.94	72,029	0.89	83,313
Forfeited during the year	1.75	(3,500)	0.55	(4,813)
Exercised during the year	–	–	0.55	(6,066)
Expired during the year	0.57	(39,729)	0.55	(405)
At 31 December	1.35	28,800	0.94	72,029

No share options exercised during the year. The weighted average share price at the date of exercise for the share options exercised during 2018 was HK$0.87 per share.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019 Number of options '000	Exercise price* HK$ per share	Exercise period
3,000	3.93	10-06-2016 to 09-06-2025
6,300	1.26	31-12-2017 to 26-03-2027
3,000	1.26	30-06-2017 to 26-03-2027
1,500	1.10	15-05-2018 to 14-05-2027
15,000	1.03	13-11-2018 to 12-11-2027
28,800		

27. EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

(1) Share option schemes (Continued)

2018 Number of options '000	Exercise price* HK$ per share	Exercise period
38,229	0.55	31-12-2015 to 05-12-2019
3,000	3.93	10-06-2016 to 09-06-2025
1,000	1.63	31-12-2016 to 04-07-2026
6,800	1.26	31-12-2017 to 26-03-2027
3,000	1.26	30-06-2017 to 26-03-2027
5,000	1.10	15-05-2018 to 14-05-2027
15,000	1.03	13-11-2018 to 12-11-2027
72,029		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the end of the reporting period, the Company had 28,800,000 share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 28,800,000 additional ordinary shares of the Company, an additional share capital of approximately RMB20 and a share premium of approximately RMB36,299,000.

At the date of approval of these financial statements, the Company had 28,800,000 share options outstanding under the Schemes, which represented 1.86% of the Company's shares in issue as at that date.

The Group recognised total share option expenses of RMB1,622,000 for the year ended 31 December 2019 (2018: RMB6,609,000).

27. EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

(2) Restricted Share Unit ("RSU") Plan

The Company approved and adopted a pre-IPO restricted share unit plan (the "Pre-IPO RSU Plan") and a post-IPO restricted share unit plan (the "Post-IPO RSU Plan") on 17 November 2014 for the purpose of rewarding eligible participants for their contribution to the Group. Eligible participants of the Pre-IPO RSU Plan and Post-IPO RSU Plan include full-time employees, officers or suppliers, customers, consultants, agents or advisers of the Group, and any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Group.

The total number of the ordinary share underlying awards made pursuant to the Pre-IPO RSU Plan is 13,850,000. On 17 November 2014, RSUs to subscribe for 13,850,000 shares were granted to certain eligible employees and all of the 13,850,000 Pre-IPO RSUs granted were vested on 1 April 2015.

The maximum number of shares that may underlie awards of RSUs to be granted under the Post-IPO RSU Plan is 45,000,000 shares. On 27 March 2017, under the Post-IPO RSU Plan, the Company conditionally granted a total number of 14,000,000 RSUs to certain eligible employees. Such RSUs shall be vested 50% each at 31 December of years 2017 and 2018, respectively.

The fair value of the RSUs granted as at the date of grant was nil, of which the Group recognised a total RSU award expense of nil in the year 2019 (2018: RMB4,352,000).

As at 31 December 2018 and 2019, there were no RSUs outstanding under the Post-IPO RSU Plan.

28. RESERVES

Statutory reserve

Pursuant to the relevant PRC rules and regulations and the articles of association, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements are required to transfer no less than 10% of their profit after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB12,347,000 respectively, in respect of lease arrangements for properties (2018: Nil).

(b) Changes in liabilities arising from financing activities

	2019 Lease liabilities RMB'000	2019 Bank and other loans RMB'000
At 1 January 2019	–	93,034
Effect of adoption of IFRS 16	1,776	–
At 1 January 2019 (restated)	1,776	93,034
Changes from financing cash flows	(4,771)	19,897
New leases	12,347	–
Interest expense	426	1,914
Foreign exchange movement	–	1,851
At 31 December 2019	9,778	116,696

	2018 Bank and other loans RMB'000
At 1 January 2018	53,504
Changes from financing cash flows	36,951
Foreign exchange movement	2,579
At 31 December 2018	93,034

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	5,126
Within financing activities	4,345
	9,471

30. COMMITMENTS

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

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Construction in progress	**31,152**	72,021
Capital contributions payable to an unlisted equity investment	**–**	1,855
Game operation	**–**	3,247
	31,152	77,123

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its properties under operating lease arrangements. Leases for properties were negotiated for terms ranging from two to five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	4,430
In the second to third years, inclusive	475
	4,905

31. RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	**Relationship**
Beijing Feiyu Interactive Cultural Media Co., Ltd ("Beijing Feiyu")	Controlled by directors of the Company
Guangzhou Popcorn Animation Technology Co., Ltd. ("Guangzhou Popcorn")	Associate
Shanghai Kamao Network Technology Co., Ltd. ("Shanghai Kamao")	Associate
Xiamen Chenxing Interactive Technology Co., Ltd. ("Xiamen Chenxing")	Associate

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties

The following transactions were carried out with related parties:

	2019 RMB'000	2018 RMB'000
Loans to associates (note (i))		
Xiamen Chenxing	2,700	6,001
Shanghai Kamao	700	–
	3,400	6,001
Game research services from (note (ii))		
Guangzhou Popcorn	–	14
Shanghai Kamao	3,919	–
	3,919	14
Purchases of an intellectual property right from (note (iii))		
Beijing Feiyu	–	2,330
Revenue sharing to (note (iv))		
Xiamen Chenxing	966	–
Prepaid revenue sharing to (note (v))		
Shanghai Kamao	971	971

Notes:

(i) The Group offered non-interest-bearing loans amounting to RMB2,700,000 and RMB6,001,000 to Xiamen Chenxing in 2019 and 2018 respectively. The loans to Xiamen Chenxing were fully impaired.

The Group offered a non-interest-bearing loan amounting to RMB700,000 to Shanghai Kamao in 2019. The loan of RMB200,000 was repaid by 31 December 2019.

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

(iii) The purchase of an intellectual property right from Beijing Feiyu in 2018 was mutually agreed after taking into account the prevailing market prices.

(iv) The online game's revenue sharing should pay to Xiamen Chenxing in 2019.

(v) The online game's prepaid revenue sharing to Shanghai Kamao was mutually agreed after taking into account the prevailing market prices.

31. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties:

Due from associates	2019 RMB'000	2018 RMB'000
Shanghai Kamao	2,442	971
Xiamen Chenxing	–	11,423
	2,442	12,394

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

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	5,183	4,768
Performance related bonuses	1,059	1,358
Equity-settled share-based payment expenses	2,473	6,644
Pension scheme contributions	209	173
	8,924	12,943

Further details of directors' emoluments are included in note 8 to the financial statements.

32. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

As at 31 December 2019

	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	–	23,955	–	–	23,955
Equity investments designated at fair value through other comprehensive income	–	–	23,056	–	23,056
Debt investments at fair value through profit or loss	150,905	–	–	–	150,905
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	–	–	–	32,106	32,106
Financial assets included in prepayments, other receivables and other assets	–	–	–	18,351	18,351
Cash and cash equivalents	–	–	–	179,218	179,218
	150,905	23,955	23,056	229,675	427,591

32. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets (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

32. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Financial liabilities at amortised cost	
	2019 RMB'000	2018 RMB'000
Financial liabilities included in other payables and accruals	**17,163**	22,356
Interest-bearing bank and other borrowings (note 24)	**126,474**	93,034
	143,637	115,390

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, accounts receivable and receivables due from third-party game distribution platforms and payment channels, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, and interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The fair values of debt investments at fair value through other comprehensive income and debt investments at fair value through profit or loss have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows from future proceeds when the investments mature. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values are reasonable, and that they were the most appropriate values at the end of the year.

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

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

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

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Certain equity investments	Valuation multiple	Average EV/Revenue multiple of peers	2019: 6.3 to 6.7 (2018: 4.6 to 4.8)	5% (2018: 5%) increase/ decrease in multiple would result in increase/ decrease in fair value by RMB946,000 (2018: RMB771,000)
		Discount for lack of marketability	2019: 7% to 15% (2018: 14% to 16%)	5% (2018: 5%) increase/ decrease in multiple would result in decrease/ increase in fair value by RMB190,000/ RMB171,000 (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.

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Debt investments at fair value through other comprehensive income	–	23,955	–	23,955
Debt investments at fair value through profit or loss	–	150,905	–	150,905
Equity investments designated at fair value through other comprehensive income	–	–	23,056	23,056
	–	174,860	23,056	197,916

As at 31 December 2018

	Fair value measurement using			
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Debt investments at fair value through other comprehensive income	–	25,076	–	25,076
Debt investments at fair value through profit or loss	–	196,194	–	196,194
Equity investments designated at fair value through other comprehensive 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 31 December 2019 and 31 December 2018.

For the year ended 31 December 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).

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings, debt investments at fair value through other comprehensive income, debt investments at fair value through profit or loss, equity investments designated at fair value through other comprehensive income, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and receivables due from third-party game distribution platforms and payment channels and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Maximum exposure and year-end staging as at 31 December 2019

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019. The amounts presented are gross carrying amounts for debt investments at fair value through other comprehensive income, accounts receivable and receivables due from third-party game distribution platform and payment channels and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2019

	12-months ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Debt investments at fair value through other comprehensive income – BBB to BB-	23,955	–	–	–	23,955
Financial assets included in prepayments, other receivables and other assets – Normal**	18,351	–	–	–	18,351
Accounts receivable and receivables due from third-party game distribution platforms and payment channels*	–	–	–	32,106	32,106
Cash and cash equivalents	179,218	–	–	–	179,218
	221,524	–	–	32,106	253,630

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging as at 31 December 2019 (Continued)

As at 31 December 2018

	12-months ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Debt investments at fair value through other comprehensive income – BBB+ to BBB	25,076	–	–	–	25,076
Financial assets included in prepayments, other receivables and other assets – Normal**	32,770	–	–	–	32,770
Accounts receivable and receivables due from third-party game distribution platforms and payment channels*	–	–	–	21,980	21,980
Cash and cash equivalents	104,922	–	–	–	104,922
	162,768	–	–	21,980	184,748

* For accounts receivable and receivables due from third-party game distribution platforms and payment channels to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable and receivables due from third-party game distribution platforms and payment channels are disclosed in note 19 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty. At the end of the reporting period, the Group had certain concentrations of credit risk as 29% (2018: 54%) of the Group's accounts receivable and receivables due from third-party game distribution platforms and payment channels were due from the Group's largest counterparty.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows and maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

The maturity profile of the Group's financial liabilities at the end of the year, based on the contractual undiscounted payments, is as follows:

Group

	2019					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	–	–	4,432	5,346	–	9,778
Interest-bearing bank and other borrowings (excluding lease liabilities)	–	60,586	9,340	46,770	–	116,696
Other payables	816	16,347	–	–	–	17,163
	816	76,933	13,772	52,116	–	143,637

	2018					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	83,694	–	9,340	–	93,034
Other payables	10,455	5,206	6,695	–	–	22,356
	10,455	88,900	6,695	9,340	–	115,390

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The debt-to-asset ratios as at 31 December 2019 and 31 December 2018 were as follows:

	2019 RMB'000	2018 RMB'000
Total liabilities	220,995	198,638
Total assets	730,730	776,612
Debt-to-asset ratio	30%	26%

35. EVENT AFTER THE REPORTING PERIOD

On 21 January 2020, the Board resolved a grant an aggregate of 112,000,000 share options (the "Share Options" and each a "Share Option") of the Group to five of senior management of the Group to subscribe for an aggregate of 112,000,000 new Shares in the share capital of the Group under the Group's Post-IPO Share Option Scheme, subject to acceptance.

With respect to the outbreak of the coronavirus pandemic ("Pandemic"), the Group has assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this report. The Group will keep continuous attention on the situation of the Pandemic and react actively to its impacts on the operation and financial position of the Group.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Note	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries		119,209	117,587
Due from subsidiaries		224,841	207,233
Debt investments at fair value through other comprehensive income		23,955	25,076
Debt investments at fair value through profit or loss		113,264	152,150
Total non-current assets		481,269	502,046
CURRENT ASSETS			
Prepayments, other receivables and other assets		220	261
Cash and cash equivalents		48,262	32,093
Total current assets		48,482	32,354
CURRENT LIABILITIES			
Due to subsidiaries		15,189	10,165
Other payables and accruals		549	26
Interest-bearing bank and other borrowings		60,586	83,694
Total current liabilities		76,324	93,885
NET CURRENT ASSETS		(27,842)	(61,531)
NET ASSETS		453,427	440,515
EQUITY			
Share capital	26	1	1
Share premium	26	498,453	498,453
Reserves (note)		(45,027)	(57,939)
Total equity		453,427	440,515

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Equity-settled share-based payment reserve RMB'000	Financial assets revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2018	150,155	(6,779)	20,147	66,815	230,338
Effect of adoption of IFRS 9	–	7,493	–	–	7,493
Total comprehensive loss for the year	–	(1,395)	14,348	(305,122)	(292,169)
Equity-settled share-based payment expenses	10,961	–	–	–	10,961
Exercise of options	(14,562)	–	–	–	(14,562)
At 31 December 2018	146,554	(681)	34,495	(238,307)	(57,939)
Total comprehensive income for the year	–	3,484	7,227	579	11,290
Equity-settled share-based payment expenses	1,622	–	–	–	1,622
At 31 December 2019	148,176	2,803	41,722	(237,728)	(45,027)

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of the directors on 7 April 2020.

DEFINITION

"AGM"	the annual general meeting of the Company to be held on Wednesday, 27 May 2020
"Android"	an operating system developed and maintained by Google Inc.
"ARPPU"	average revenue per paying user, calculated by dividing monthly average revenue from the sale of virtual items and premium features during a certain period by the number of average MPUs during the same period
"Articles of Association" or "Articles"	the articles of association of the Company adopted on 17 November 2014, as amended from time to time
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors" or "our Board"	the board of Directors
"Cayman Companies Law" or "Companies Law"	the Companies Law of the Cayman Islands, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Cayman Islands"	the Cayman Islands
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the chairman of the Board
"Chief Executive Officer"	the chief executive officer of our Company
"China" or "PRC"or "Mainland China"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Companies Ordinance"	the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company", "we", "us" or "our"	Feiyu Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2014
"Contractual Arrangements"	a series of contractual arrangements entered into by Xiamen Feiyou, the PRC Contractual Entities and the Relevant Shareholders
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and, depending on the context, refers to Mr. YAO Jianjun, Mr. BI Lin, YAO Holdings Limited, BILIN Holdings Limited, Jolly Spring International Limited and Rayoon Limited
"Director(s)"	directors of the Company

"ESG Report"	Environmental, Social and Governance Report
"Ewan"	Ewan (Shanghai) Network Technology Co., Ltd. (易玩(上海)網路科技有限公司),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
"Executive Director(s)"	the executive Director(s)
"Feiyu Hong Kong"	Feiyu Technology Hong Kong Limited (飛魚科技香港有限公司), a direct wholly-owned subsidiary of our Company and a limited company incorporated under the laws of Hong Kong on 25 March 2014
"Global Offering"	the offer of 30,000,000 Shares for subscription by the public in Hong Kong pursuant to the Hong Kong Public Offering and the offer of 270,000,000 Shares for subscription by institutional, professional, corporate and other investors pursuant to the International Offering (as respectively defined in the Prospectus)
"Group", "our Group" or "the Group"	our Company, its subsidiaries and the PRC Operating Entities
"HK$" or "Hong Kong dollars" or "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IAS(s)"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRS(s)"	International Financial Reporting Standards, amendments and interpretations issued by the IASB
"Independent Non-executive Director(s)"	the independent non-executive Director(s)
"iOS"	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple touchscreen technology including, iPhones, iPods, and iPads
"IPO"	initial public offering of the Shares on the Main Board of the Stock Exchange
"Kailuo Tianxia"	Beijing Kailuo Tianxia Technology Co., Ltd. (北京凱羅天下科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company

DEFINITION

"Licensed Property"	collectively, the Xiamen Guangyu Licensed Property, the Kailuo Tianxia Licensed Property and the Xiamen Youli Licensed Property
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	the date which dealings in Shares first commence on the Main Board of the Stock Exchange, i.e. 5 December 2014
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MAU"	monthly active users, which is the number of players who logged into a particular game in the relevant calendar month. Under this metric, a player who logged into two different games in the same month is counted as two MAUs. Similarly, a player who plays the same game on two different publishing platforms in a month would be counted as two MAUs. Average MAUs for a particular period is the average of the MAUs in each month during that period
"Meitu"	Meitu, Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code:1357)
"Meitu Networks"	Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司), a limited liability company established under the laws of the PRC, is one of the important consolidated variable interest entities controlled through a series of contractual arrangement by Meitu
"Memorandum"	the memorandum of association of the Company adopted on 17 November 2014, as amended from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MPUs"	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period
"Nomination Committee"	the nomination committee of the Board
"PC"	personal computer
"Post-IPO RSU Plan"	the post-IPO restricted share unit plan adopted by the Shareholders on 17 November 2014
"Post-IPO Share Option Scheme"	the post-IPO share option scheme adopted by the Shareholders on 17 November 2014

"PRC Contractual Entities"	Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia and "PRC Contractual Entity" means any one of them
"PRC Operating Entities"	Xiamen Guanghuan and its subsidiaries and "PRC Operating Entity" means any one of them
"Pre-IPO RSU Plan"	the pre-IPO restricted share unit plan adopted by the Shareholders on 17 November 2014
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Shareholders on 17 November 2014
"Prospectus"	the prospectus dated 25 November 2014 issued by the Company
"Relevant Shareholder(s)"	Messrs. YAO Jianjun, BI Lin, CHEN Jianyu, LIN Jiabin, LIN Zhibin, CAI Wensheng (subsequently changed to Ms. CAI Shuting on 21 February 2019) and Ms. CHEN Yongchun, being the registered shareholders of Xiamen Guanghuan
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"RPG"	role-playing games, which involve a large number of players who interact with each other in an evolving fictional world. Each player adopts the role of one or more "characters" who develop specific skill sets (such as melee combat or casting magic spells) and control the character's actions. There are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the players, and the storyline continuously evolves even while the players are offline and away from the games
"RSU(s)"	restricted share units or any one of them
"RSU Plan II"	the restricted share unit plan II adopted by the Shareholders on 28 May 2018
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shareholders"	holder(s) of Shares
"Sharelink"	Sharelink Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability
"Shares"	ordinary share(s) in the share capital of our Company with nominal value of US$0.0000001 each

DEFINITION

"Star Winner"	Star Winner Asia Corporation, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in the Listing Rules
"US$", "U.S. dollars", "USD" or "United States Dollars"	United States dollars, the lawful currency of the United States of America
"XD"	X.D. Network Inc. (心動網絡股份有限公司), an online game publishing and developing company established in the PRC, which is an entity controlled through a series of contractual arrangement by XD Inc. (心動有限公司), an exempted company incorporated in the Cayman Islands with its shares listed on the Main Board of Stock Exchange (Stock code: 2400)
"Xiamen Feixin"	Xiamen Feixin Internet Technology Co., Ltd. (廈門飛信網絡科技有限公司), a direct wholly-owned subsidiary of Xiamen Feiyou and a limited company established under the laws of the PRC on 13 November 2014
"Xiamen Feiyou"	Xiamen Feiyou Information Technology Co., Ltd. (廈門飛遊信息科技有限公司), a direct wholly-owned subsidiary of Feiyu Hong Kong and a limited company established under the laws of the PRC on 24 June 2014
"Xiamen Guanghuan"	Xiamen Guanghuan Information Technology Co., Ltd. (廈門光環信息科技有限公司), a limited company incorporated under the laws of the PRC on 12 January 2009
"Xiamen Guangling"	Xiamen Guangling Investment Management Co., Ltd. (廈門市光翎投資管理有限公司), formerly known as Xiamen Guangyu Investment Management Co., Ltd. (廈門市光娛投資管理有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
"Xiamen 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
"Xiamen Yidou"	Xiamen Yidou Internet Technology Co., Ltd. (廈門翼逗網絡科技有限公司), an indirect wholly-owned subsidiary of the Company and a limited company established under the laws of the PRC on 11 June 2012
"Xiamen Youli"	Xiamen Youli Information Technology Co., Ltd. (廈門游力信息科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company

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