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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2016

Reference is made to the annual report (the "**Annual Report**") of Feiyu Technology International Company Ltd. (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2016 published on 21 April 2017. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

In addition to the information provided in the Annual Report, the Company would like to further provide the Shareholders and potential investors of the Company with additional information as follows.

PERFORMANCE AND FUTURE PROSPECT OF SIGNIFICANT AVAILABLE-FOR-SALE INVESTMENTS HELD

As disclosed in the section headed "Management Discussion and Analysis" of the Annual Report, the Group's available-for-sale investments amounted to RMB406 million, which represented approximately 33.9% of the Company's total assets as at 31 December 2016. Details of the Group's available-for-sale investments as at 31 December 2016 are presented as follows:

(A) Significant Structured Financial Product

Name of the structured financial product	*Notes*	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2016 *(RMB'000)*	Changes in fair value *(RMB'000)*	Fair value as at 31 December 2016 *(RMB'000)*	Percentage of total available-for-sale investments as at 31 December 2016	Percentage of the total assets of the Group as at 31 December 2016
China Merchants Bank – Dian Jin Chi (點金池)	*1*	–	–	64,000	15.8%	5.3%
Others	2	–	139	7,139	1.8%	0.6%

Notes:

1. The structured financial product Dian Jin Chi (點金池) was issued by China Merchants Bank with floating interest rate and without maturity date. The principle of the structured financial product was protected and the Group can decide when to withdraw the structured financial product. Based on the historical record and estimation of the bank, the expected interest rate of the structured financial product would be 1.5% per annum.

   Pursuant to the instruction of Dian Jin Chi, the fund raised by Dian Jin Chi will be invested in the financial assets in the Chinese interbank market with higher credit rating and better liquidity. According to the announcement on the official website of China Merchants Bank, Dian Jin Chi maintained an average annual interest rate of 1.5% throughout the year ended 31 December 2016.

   The Group is optimistic about the domestic macroeconomic trends and Chinese financial market situation and the historical rate of return of Dian Jin Chi is stable, the Group is therefore optimistic about the future performance of Dian Jin Chi.

   The Group entered into the investment contract on 30 December 2016 and withdrew the structured financial product in early-January 2017 with the purpose to facilitate temporary fund utilisation. The actual interest rate of the structured financial product was 1.5%.

2. Other structured financial product represented a structured financial product issued by an asset management company in the PRC with an expected interest rate at 4.2% per annum and a maturity period of 180 days. The structured financial product was matured in March 2017 and the actual interest rate of the structured financial product was 4.2%.

(B) Straight Bonds

Name of the straight bonds	*Notes*	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2016 *(RMB'000)*	Changes in fair value *(RMB'000)*	Fair value at 31 December 2016 *(RMB'000)*	Percentage of total available-for-sale investments at 31 December 2016	Percentage of the total assets of the Group as at 31 December 2016
Huarong Finance II Co., Ltd. ("**Huarong Finance II**")	*1*	1,353	420	24,977	6.1%	2.1%
Sparkle Assets Limited ("**SAL**")	*2*	3,947	(336)	66,173	16.3%	5.5%
Zhongrong International Bond 2015 Limited ("**ZIB 2015**")	*3*	351	(117)	20,857	5.1%	1.7%

Notes:

1. Please refer to note 21(3) to the "Notes to the Consolidated Financial Statements" of the Annual Report for the details of the bond issued by Huarong Finance II Co., Ltd.

   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 (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 Huarong Group's annual report for the year ended 31 December 2016, Huarong Group recorded total income of approximately RMB95,207.7 million and profit for the year of approximately RMB23,108.5 million. Huarong Group will continue to "pursue business growth in a prudent manner, maintain flexibility under strict regulatory requirements, improve quality and control risks, develop collaboratively", strengthen its core business of distressed asset management and operation, improve its function to provide comprehensive financial services and strengthen its efforts in business innovation and internationalisation, continuously endeavor to become stronger, better and larger, in order to realise its strategic transformation towards a first-class AMC featuring "scientific governance, systematic management, strong core business, integrated operation and outstanding results".

   The Group believes that the Huarong Group will continue its business expansion and value creation and is therefore optimistic about the future prospect of Huarong Group.

2. Please refer to note 21(3) to the "Notes to the Consolidated Financial Statements" of the Annual Report for the details of the bond issued by Sparkle Assets Limited.

   SAL, the issuer of the bond, is a subsidiary of Fosun International Limited ("**Fosun**"), of which its shares are listed on the Main Board of the Stock Exchange (Stock Code: 656). The bond issued by SAL was unconditionally and irrevocably guaranteed by Fosun. Fosun (together with its subsidiaries, "**Fosun Group**") is a famous investment group and its principal businesses consist of seven segments: (i) insurance, (ii) pharmaceuticals and healthcare, (iii) property, (iv) steel, (v) mining, (vi) retail, services, finance and other investments and (vii) asset management.

   Pursuant to Fosun Group's annual report for the year ended 31 December 2016, the Fosun Group recorded revenue of approximately RMB73,966.6 million and profit for the year of approximately RMB12,686.2 million. Fosun Group will continue to adhere to the "value-investing" discipline and persevere in "Combining China's Growth Momentum with Global Resources". It will improve its industrial integration and asset allocation capabilities, direct its focus towards how to bring a happy life to families, accomplish further development in the businesses of "health, happiness, and wealth" and innovate in creating C2M (Customer-to-Maker) ecosystem. In addition, Fosun Group will continue to promote its Global Partnership Model and develop an endless stream of elite worldwide under the "GLOCAL" concept.

   The Group believes that Fosun Group will continue its business expansion and value creation which will be favorable to the future prospect of Fosun Group.

3. Please refer to note 21(3) to the "Notes to the Consolidated Financial Statements" of the Annual Report for the details of the bond issued by ZIB 2015.

   ZIB 2015, the issuer of the bond, is a subsidiary of Zhongrong International Trust Co., Ltd. ("**ZIT**"). The bond issued by ZIB 2015 was unconditionally and irrevocably guaranteed by ZIT with the benefit of a keepwell deed and liquidity support and a deed of equity interest purchase undertaking by ZIT. ZIT (together with its subsidiaries, "**Zhongrong Group**") is one of the leading trust companies in the PRC. The principal business of Zhongrong Group is its trust business which offers a broad range of investments into diverse sectors and asset classes through innovative structures to a large client base that includes institutional investors, financial institutions, governments and high net worth individuals in the PRC.

   Pursuant to Zhongrong Group's annual report for the year ended 31 December 2016, Zhongrong Group recorded total income of approximately RMB6,796.1 million and profit for the year of approximately RMB2,704.0 million. Zhongrong Group will seek for transition and innovation, continue to adjust and optimize the business structure, shrink the traditional financing business and focus on the capital market to expand its business.

   The Group believes that Zhongrong Group will strive to become a domestic first-class integrated asset management company and continue to improve its performance and the future prospect of Zhongrong Group is optimistic.

(C) Convertible Bond

Name of the convertible bond	*Note*	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2016 *(RMB'000)*	Changes in fair value *(RMB'000)*	Fair value at 31 December 2016 *(RMB'000)*	Percentage of total available-for-sale investments at 31 December 2016	Percentage of the total assets of the Group as at 31 December 2016
Standard Chartered PLC	*1*	2,374	(56)	19,257	4.7%	1.6%

Notes:

1. Please refer to note 21(4) to the "Notes to the Consolidated Financial Statements" of the Annual Report for the details of the convertible bond issued by Standard Chartered PLC.

   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 Standard Chartered Group's annual report for the year ended 31 December 2016, Standard Chartered Group recorded operating income of approximately US$14,060 million and loss for the year of approximately US$191 million. Standard Chartered Group have taken steps to address the very poor performance of its Principal Finance business, putting the right team in place to reduce the exposure over the course of 2017 and is addressing credit issues in PT Bank Permata, a joint venture in Indonesia in which Standard Chartered Group hold a 44.6 per cent stake, bolstering its management team and risk discipline. This will allow Standard Chartered Group to progress strategic options in the year 2017. And Standard Chartered Group will approach the remaining restructuring issues with a view to getting the best value for the Group's investors, on the shortest timeframe necessary.

   The Group believes that the market growth in China has stabilised at a lower level, interest rates are at the early stage of normalisation and commodity prices have increased moderately and the operating performance of the Standard Chartered Group will be improved as Standard Chartered Group is using a number of measures to track progress. In addition, pursuant to Standard Chartered Group's interim report for the six months ended 30 June 2017, Standard Chartered Group recorded profit for the period of approximately US$1,206 million. The Group is therefore optimistic about the future prospects of Standard Chartered Group.

(D) 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 2016 *(RMB'000)*	Changes in fair value *(RMB'000)*	Fair value at 31 December 2016 *(RMB'000)*	Percentage of total available-for-sale investments at 31 December 2016	Percentage of the total assets of the Group as at 31 December 2016
Industrial and Commercial Bank of China Limited ("**ICBC**")	*1*	1,992	(1,310)	36,078	8.9%	3.0%
China Cinda Asset Management Co., Ltd. ("**Cinda**")	2	–	(160)	10,264	2.5%	0.9%

Notes:

1. Please refer to note 21(5) to the "Notes to the Consolidated Financial Statements" of the Annual Report for the details of the convertible preferred shares issued by ICBC.

   ICBC, the issuer of the convertible preferred shares, is listed on the Main Board of the Stock Exchange (Stock Code: 1398) and Shanghai Stock Exchange. ICBC (together with its subsidiaries, "**ICBC Group**") is one of the top large listed banks in the world, possessing an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness and providing comprehensive financial products and services to corporate customers and personal customers.

   Pursuant to ICBC Group's annual report for the year ended 31 December 2016, ICBC Group recorded operating income of approximately RMB641,681 million and net profit of approximately RMB279,106 million. By expanding market share via transformation and innovation, and deriving value from risk management, ICBC Group will spare no efforts to pursue healthy, sustainable development of ICBC Group while delivering better services to the customers and creating greater return to the shareholders and the society.

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

2. Please refer to note 21(5) to the "Notes to the Consolidated Financial Statements" of the Annual Report for the details of the convertible preferred shares issued by Cinda.

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

Pursuant to Cinda Group's annual report for the year ended 31 December 2016, Cinda Group recorded total income of approximately RMB91,657.2 million and profit for the year of approximately RMB15,982.0 million. Cinda Group will further reinforce the edges of its distressed asset business, exert greater efforts in exploring alternative investment and asset management business and speed up the development of differentiated integrated financial services by orderly consolidating Nanyang Commercial Bank upon its acquisition and integrating existing platforms, customers, products, channels and human resources for better synergy effects.

The Group believes that Cinda Group will further consolidate its resources through the acquisition of Nanyang Commercial Bank for better synergy effects and stronger competitiveness, optimise the allocation of the its funds and capital resources and ensure its sustainable development in the future.

(E) Investment in Life Insurance Policies

	Note	**Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2016** *(RMB'000)*	**Changes in fair value** *(RMB'000)*	**Fair value at 31 December 2016** *(RMB'000)*	**Percentage of total available-for-sale investments at 31 December 2016**	**Percentage of the total assets of the Group as at 31 December 2016**
Investment in life insurance policies	*1*	–	1,844	90,708	22.3%	7.6%

Notes:

1. Please refer to note 21(6) to the "Notes to the Consolidated Financial Statements" of the Annual Report for the details of the investment in life insurance policies.

   Pursuant to the annual performance review of the life insurance policies, the actual interest rate of each insurance policy for the first two years is 3.9% per annum. 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.

(F) Unlisted Equity Investments

Company Name	*Notes*	Percentage of shareholdings at 31 December 2016	Unrealised fair value (loss)/ gain for the year ended 31 December 2016 *(RMB'000)*	Dividend income recognised in consolidated statement of profit or loss for the year ended 31 December 2016 *(RMB'000)*	Fair value at 31 December 2016 *(RMB'000)*	Percentage of total available-for-sale investments at 31 December 2016	Percentage of the total assets of the Group as at 31 December 2016
APOLLO CAPITAL L.P. ("**APOLLO**")	*1*	18.5%	–	–	33,541	8.3%	2.8%
Xiamen eName Technology Co., Ltd.	2	2.0%	–	–	20,005	4.9%	1.7%
Others	*3*		–	–	13,256	3.3%	1.1%

Notes:

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

   Pursuant to APOLLO's financial statements for the year ended 31 December 2016, APOLLO recorded revenue of approximately US$84,000 and net profit after tax of approximately US$74,000. APOLLO is holding its investments as at 31 December 2016 and did not dispose any of its investments for the year ended 31 December 2016 as it was expected to realise its investments at a later stage in order to enjoy a higher capital appreciation. There was no impairment made for any of its investments for the year ended 31 December 2016.

   The Group believes that APOLLO has sufficient capital and managed by experienced management team and the sectors it invests in have positive future and its future business prospect is positive and growing.

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

   Pursuant to the eName's annual report for the year ended 31 December 2016, eName recorded revenue of approximately RMB235.8 million and net profit after tax of approximately RMB49.0 million. eName will continue to develop and expand its domain related businesses and it is also committed to building a corporate brand service provider.

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

The Group did not receive any dividend income from eName for the year ended 31 December 2016 up to the date of the Annual Report, but eName declared a dividend of RMB1.1026088 per share for the year ended 31 December 2016 in May 2017 and the Group received the cash dividend of approximately RMB0.6 million in May 2017.

3. Others comprised 4 unlisted limited liability companies and none of these investments accounted for more than 0.6% of the total assets of the Group as at 31 December 2016.

There was no impairment made for any available-for-sale investment for the year ended 31 December 2016.

FURTHER INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

As disclosed in the section headed "Report of Directors – Non-Exempt Continuing Connected Transactions" of the Annual Report, the Group has entered into a series of agreements (i) among Xiamen Feiyou (an indirect wholly-owned subsidiary of the Company), Xiamen Guanghuan and the Relevant Shareholders, and (ii) among Xiamen Feiyou, Xiamen Youli, Kailuo Tianxia and Xiamen Guanghuan 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.

Particulars of the PRC Operating Entities as at 31 December 2016 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 2016	Business activities
Xiamen Guanghuan	Limited liability company/PRC	Messrs. YAO Jianjun, BI Lin, LIN Zhibin, LIN Jiabin, CAI Wensheng, 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 2016)
Xiamen Youli	Limited liability company/PRC	100% held by Xiamen Guanghuan	Operation and distribution of webgames and mobile games
Kailuo Tianxia	Limited liability company/PRC	100% held by Xiamen Guanghuan	Development and operation of carrot fantasy series mobile casual games

Name of the PRC Operating Entities	Type of legal entity/place of establishment and operation	Registered owners as at 31 December 2016	Business activities
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. For details, please refer to the announcement of the Company dated 21 July 2016.

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

Pursuant to the Exclusive Business Cooperation Agreements entered into between Xiamen Feiyou and the PRC Operating Entities, the services provided by Xiamen Feiyou's wholly-owned subsidiaries to the PRC Operating Entities (including provision of technical support and product development services) amounted to an aggregate of approximately RMB5.4 million for the year ended 31 December 2016. The above transactions carried out during the year ended 31 December 2016 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 RMB37.2 million and RMB208.4 million for the year ended 31 December 2016, respectively. The total assets and total liabilities of the PRC Operating Entities subject to the Contractual Arrangements amounted to approximately RMB598.2 million and RMB55.4 million as at 31 December 2016, respectively.

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**"). The Catalogue 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, the webgame business and mobile game business that the Company currently operates are regarded as value-added telecommunications services (except for e-commerce) and internet cultural business (except for music), and fall within the restricted industry category and the prohibited industry category, respectively.

Furthermore, 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 2016, expenditure amounting to RMB3,717,000 had been incurred in taking steps to satisfy the Qualification Requirement.

Up to the date of this announcement, 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.

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 2016, it recorded an accumulated loss which can be carried forward against future taxable income. Besides, Xiamen Feiyou will gradually building up a track record of business operations for the purpose of applying qualifications in order to enjoy the preferential tax treatment.

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

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

Material change in relation to the Contractual Arrangements

During the year ended 31 December 2016 and as at the date of this announcement, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

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 2016 and as at the date of this announcement, 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.

The above additional information does not affect other information contained in the Annual Report and the content of the Annual Report remains unchanged.

By Order of the Board
Feiyu Technology International Company Ltd.
YAO Jianjun
Chairman, Chief Executive Officer and
Executive Director

Hong Kong, 7 November 2017

As at the date of this announcement, the Board comprises Messrs. YAO Jianjun, CHEN Jianyu, BI Lin, SUN Zhiyan, LIN Jiabin and LIN Zhibin, as executive Directors; and Ms. LIU Qianli, and Messrs. LAI Xiaoling and MA Suen Yee Andrew, as independent non-executive Directors.