FORTUNET E-COMMERCE GROUP LIMITED
鑫網易商集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1039)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- Revenue of the Group decreased by 56.5% to RMB167.6 million for the year ended 31 December 2017 (2016: RMB385.5 million)
- The Group recorded a loss of RMB199.7 million for the year ended 31 December 2017 (2016: RMB240.4 million).
- Net loss attributable to equity shareholders of the Company amounted to RMB66.4 million for the year ended 31 December 2017 (2016: RMB176.6 million)
- The Board does not recommend the payment of any final dividend for the year ended 31 December 2017.

The board (the "**Board**") of directors (the "**Directors**") of Fortunet e-Commerce Group Limited (the "**Company**") presents herewith the annual audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017
(Expressed in Renminbi ("RMB"))

	Note	**2017** **RMB'000**	2016 *RMB'000*
Revenue	*4*	**167,632**	385,468
Cost of sales		**(175,216)**	(398,180)
Gross loss	*4(b)*	**(7,584)**	(12,712)
Other income	*5*	**2,673**	22,806
Selling and distribution expenses		**(48,317)**	(26,841)
Administrative expenses		**(113,368)**	(76,275)
Research and development costs		**(54,229)**	(23,200)
Impairment losses	*6*	**(68,329)**	(33,404)
Loss from operations		**(289,154)**	(149,626)
Finance costs	*7(a)*	**(4,812)**	(85,288)
Loss on financial guarantee contracts issued		**–**	(30,965)
Gain on disposal of subsidiaries	*8*	**141,495**	–
Loss before taxation	*7*	**(152,471)**	(265,879)
Income tax	*9*	**(47,210)**	25,512
Loss and total comprehensive income for the year		**(199,681)**	(240,367)
Attributable to:			
Equity shareholders of the Company		**(66,413)**	(176,604)
Non-controlling interests		**(133,268)**	(63,763)
Loss and total comprehensive income for the year		**(199,681)**	(240,367)
Loss per share			
Basic (RMB)	*10(a)*	**(0.04)**	(0.12)
Diluted (RMB)	*10(b)*	**(0.05)**	(0.12)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2017

(Expressed in RMB)

	Note	2017	2016
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**8,805**	82,970
Lease prepayments		–	11,207
Intangible assets	*11*	–	22,667
Goodwill	*12*	–	61,013
Deferred tax assets	*18(b)*	–	50,487
		8,805	228,344
Current assets			
Inventories		**94**	29,259
Trade and other receivables	*13*	**49,646**	315,373
Assets classified as held-for-sale		–	70,398
Pledged bank deposits		**30**	461
Cash and cash equivalents		**392,994**	90,002
		442,764	505,493
Current liabilities			
Trade and other payables	*14*	**34,096**	159,511
Bank and other loans		–	195,665
Secured notes	*15*	–	141,161
Convertible bonds	*16*	–	115,976
Provisions		–	30,965
		34,096	643,278
Net current assets/(liabilities)		**408,668**	(137,785)
Total assets less current liabilities		**417,473**	90,559

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2017 (continued)
(Expressed in RMB)

	Note	**2017**	2016
		RMB'000	*RMB'000*
Non-current liabilities			
Convertible bonds	*16*	**85,075**	–
Deferred tax liabilities	*18(b)*	**–**	3,946
		85,075	3,946
NET ASSETS		**332,398**	86,613
CAPITAL AND RESERVES			
Share capital	*20*	**117,978**	108,209
Reserves		**276,162**	66,798
Total equity attributable to equity shareholders of the Company		**394,140**	175,007
Non-controlling interests		**(61,742)**	(88,394)
TOTAL EQUITY		**332,398**	86,613

NOTES

(Expressed in RMB unless otherwise indicated)

1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2017 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for derivative financial instruments which are stated at their fair values.

Non-current assets and disposal groups held-for-sale are stated at the lower of carrying amount and fair value less costs to sell.

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

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

For the year ended 31 December 2017, the Group had incurred net loss of RMB199,681,000 and net cash used in operating activities of RMB150,715,000. Notwithstanding of the above, based on a cash flow forecast of the Group for the twelve months ending 31 December 2018 prepared by the management, the directors of the Company are of the opinion that the Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in the annual report to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the manufacture and sale of axles and related components, and the trading of goods and facilitating awards earned by customers of loyalty programmes of other companies to be exchanged globally in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions through operation of electronic distribution platforms, mobile applications and other related means in the PRC.

The Group's customer base is diversified. There were 3 customers with whom transactions exceeded 10% of the Group's revenue for the year ended 31 December 2017 (2016: three customers). Revenue from sales to these customers amounted to RMB153,512,000 for the year ended 31 December 2017 (2016: RMB270,973,000).

Further details regarding the Group's principal activities are disclosed below.

(b) Segment reporting

The Group manages its businesses by lines of business. In view of the disposal of the manufacture and sale of axles business, and the development of an electronic trading platform to facilitate awards earned by customers of loyalty programmes of other companies to be exchanged globally in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions, the management of the Group has revisited the Group's future strategies and has decided to change the way in how information is to be reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. Aside from the two operating segments, namely "E-commerce business" and "Axle business", as previously reported for the year ended 31 December 2016, the Group added a new operating segment, namely "Digital point business", and reported the following three operating segments for the year ended 31 December 2017:

- Digital point business: this segment operates an electronic platform to facilitate awards earned by customers of loyalty programmes of other companies to be exchanged globally in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions.

- E-commerce business: this segment trades goods through electronic distribution platform, mobile applications and other related means.

- Axle business: this segment manufactures and sells axles and related components to truck manufacturers and after-sales services market. The segment has been disposed of during the year.

No operating segments have been aggregated to form the above reportable segments.

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities

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

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and expenses incurred by those segments. No inter-segment sales have occurred for the years ended 31 December 2017 and 2016. The Group's other operating expenses, such as selling and distribution expenses, administrative expenses, research and development costs, impairment losses, finance costs, loss on financial guarantee contracts issued and gain on disposal of subsidiaries, are not measured under individual segments. The measure used for reporting segment result is gross profit/(loss).

Segment assets and liabilities include all assets and liabilities with the exception of assets and liabilities classified as held-for-sale, bank and other loans, secured notes, convertible bonds and unallocated corporate assets and liabilities.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	2017			
	Digital point business	**E-commerce business**	**Axle business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers and reportable segment revenue	**941**	**134,040**	**32,651**	**167,632**
Reportable segment gross loss	**(238)**	**(2,404)**	**(4,942)**	**(7,584)**
Reportable segment assets	**163,768**	**45,314**	**–**	**209,082**
Reportable segment liabilities	**87,770**	**38,160**	**–**	**125,930**

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2016		
	E-commerce business *RMB'000*	Axle business *RMB'000*	Total *RMB'000*
Revenue from external customers and reportable segment revenue	302,088	83,380	385,468
Reportable segment gross loss	(5,557)	(7,155)	(12,712)
Reportable segment assets	233,800	171,560	405,360
Reportable segment liabilities	36,004	173,524	209,528

(ii) Reconciliations of reportable segment assets and liabilities

	2017 *RMB'000*	2016 *RMB'000*
Assets		
Reportable segment assets	**209,082**	405,360
Assets classified as held-for-sale	–	70,398
Unallocated head office and corporate assets	**335,373**	302,961
Elimination of receivables between segments, and segments and head office	**(92,886)**	(44,882)
Consolidated total assets	**451,569**	733,837
Liabilities		
Reportable segment liabilities	**125,930**	209,528
Bank and other loans	–	195,665
Secured notes	–	141,161
Convertible bonds	**85,075**	115,976
Unallocated head office and corporate liabilities	**1,052**	29,776
Elimination of payables between segments, and segments and head office	**(92,886)**	(44,882)
Consolidated total liabilities	**119,171**	647,224

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iii) Geographic information

All of the revenue of the Group for the years ended 31 December 2017 and 2016 were generated from sales and services to customers in the PRC. All of the non-current assets of the Group are either physically located or allocated to operations in the PRC.

5 OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Net (loss)/gain on disposal of property, plant and equipment and assets classified as held-for-sale	**(2,563)**	15,070
Government grants	**1,171**	1,075
Interest income	**4,011**	1,879
Others	**54**	4,782
	2,673	22,806

6 IMPAIRMENT LOSSES

	2017	2016
	RMB'000	*RMB'000*
Impairment losses on property, plant and equipment	**–**	13,746
Impairment losses on intangible assets *(Note 11)*	**13,000**	–
Impairment losses on goodwill *(Note 12)*	**61,013**	–
(Reversal of impairment losses)/impairment losses on trade and other receivables *(Note 13(b))*	**(5,684)**	18,249
Impairment losses on assets classified as held-for-sale	**–**	1,409
	68,329	33,404

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	2017 *RMB'000*	2016 *RMB'000*
(a) Finance costs/(income):		
Interest on bank and other loans	**5,324**	17,090
Finance charges on secured notes	**883**	21,459
Finance charges on convertible bonds *(Note 16)*	**13,126**	12,166
Total borrowing costs	**19,333**	50,715
Net foreign exchange loss	**16,030**	7,987
Gain on redemption of secured notes *(Note 15)*	**(1,228)**	–
Loss on extinguishment of convertible bonds	**3,078**	–
Changes in fair value on the derivative components of convertible bonds *(Note 16)*	**(32,401)**	26,586
	4,812	85,288

No borrowing costs have been capitalised for the year ended 31 December 2017 (2016: RMBNil).

	2017 *RMB'000*	2016 *RMB'000*
(b) Staff costs#:		
Salaries, wages and other benefits	**51,684**	53,822
Contributions to defined contribution retirement plans	**3,905**	3,189
Equity-settled share-based payment expenses *(Note 17)*	**31,500**	11,073
	87,089	68,084

The employees of the subsidiaries of the Group established in the PRC (excluding Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby these subsidiaries are required to contribute to the schemes at rates ranging from 18% to 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (excluding Hong Kong), from the above mentioned retirement schemes at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollars ("HK$") 30,000. Contributions to the MPF scheme vest immediately.

The Group has no further material obligation for payment of other retirement benefits beyond the above contributions.

7 LOSS BEFORE TAXATION (CONTINUED)

	2017	2016
	RMB'000	*RMB'000*
(c) Other items:		
Cost of inventories#	**175,109**	397,139
Auditor's remuneration	**2,200**	2,000
Depreciation and amortisation#	**16,987**	27,196
Operating lease charges in respect of properties	**9,992**	7,728

\# Cost of inventories includes RMB6,831,000 for the year ended 31 December 2017 (2016: RMB18,026,000), relating to staff costs, and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 7(b) for each of these types of expenses.

8 GAIN ON DISPOSAL OF SUBSIDIARIES

On 28 April 2017, the Group disposed of the entire equity interests in Chang Feng Holding (Hong Kong) Limited ("Chang Feng Hong Kong") and its subsidiaries (together the "Chang Feng Group") to a third party for a consideration of HK$5,000 (equivalent to approximately RMB4,000). The carrying value of the net liabilities of the Chang Feng Group on the date of disposal amounted to RMB141,491,000. Accordingly, the Group recognised a gain on disposal of subsidiaries of RMB141,495,000 during the year ended 31 December 2017.

9 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2017	2016
	RMB'000	*RMB'000*
Deferred taxation *(Note 18(a))*:		
Origination and reversal of temporary differences	**47,210**	(25,512)

9 INCOME TAX (CONTINUED)

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2017	2016
	RMB'000	*RMB'000*
Loss before taxation	**(152,471)**	(265,879)
Expected tax on loss before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**(32,720)**	(57,779)
Tax effect of non-deductible expenses	**1,952**	18,190
Tax effect of reversal of deductible temporary differences not recognised for deferred tax	**(1,476)**	(13,019)
Tax effect of unused tax losses not recognised	**30,969**	27,096
Tax effect of write-down of deferred tax assets and reversal of deferred tax liabilities *(Note (iv))*	**48,485**	–
Income tax	**47,210**	(25,512)

Notes:

(i) The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2017 (2016: 16.5%). No provision for Hong Kong Profits Tax has been made, as the Company and the subsidiaries of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2017 (2016: RMBNil).

(ii) The Company and the subsidiaries of the Group incorporated in the Cayman Islands and the British Virgin Islands, respectively, are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2017 (2016: 25%).

(iv) The amount mainly represents written down of previously recognised deferred tax assets in respect of unused tax losses and impairment losses on trade and other receivables, as the management of the Group expects that it is not probable that the related subsidiaries will have adequate taxable profits to utilise the unused tax losses and deductible temporary differences in the future.

10 LOSS PER SHARE

(a) Basic loss per share

The basic loss per share for the year ended 31 December 2017 is calculated based on the loss attributable to the equity shareholders of the Company of RMB66,413,000 (2016: RMB176,604,000) and the weighted average of 1,818,494,000 ordinary shares (2016: 1,533,865,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2017	2016
	'000	*'000*
Issued ordinary shares at 1 January	**1,671,615**	1,532,727
Effect of shares issued *(Note 20(b))*	**149,440**	1,138
Effect of shares repurchased *(Note 20(c))*	**(2,561)**	–
Weighted average number of ordinary shares at 31 December	**1,818,494**	1,533,865

(b) Diluted loss per share

The diluted loss per share is calculated based on the loss attributable to equity shareholders of the Company (diluted) of RMB88,130,000 and the weighted average number of ordinary shares (diluted) of 1,883,029,000 calculated as follows:

(i) Loss attributable to the equity shareholders of the Company (diluted)

	2017
	RMB'000
Loss attributable to the equity shareholders of the Company	(66,413)
After tax effect of effective interest and exchange differences on the liability component of convertible bonds	9,231
After tax effect of changes in fair value recognised and exchange differences on the derivative components of convertible bonds	(34,026)
Loss on extinguishment of convertible bonds	3,078
Loss attributable to the equity shareholders of the Company (diluted)	(88,130)

(ii) Weighted average number of ordinary shares (diluted)

	2017
	'000
Weighted average number of ordinary shares at 31 December	1,818,494
Effect of conversion of convertible bonds	64,535
Weighted average number of ordinary shares (diluted) at 31 December	1,883,029

There were no dilutive potential shares outstanding during the year ended 31 December 2016.

10 LOSS PER SHARE (CONTINUED)

(b) Diluted loss per share (continued)

(ii) Weighted average number of ordinary shares (diluted) (continued)

The Group's share options granted could potentially dilute basic earnings/(loss) per share in the future, but were not included in the calculation of diluted loss per share because they are antidilutive during the years ended 31 December 2017 and 2016.

11 INTANGIBLE ASSETS

	Domain name	Exclusive income right	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Note (i))	*(Note (ii))*	
Cost:			
At 1 January 2016	21,917	–	21,917
Addition	–	13,824	13,824
At 31 December 2016, 1 January 2017 and 31 December 2017	21,917	13,824	35,741
Accumulated amortisation and impairment:			
At 1 January 2016	(3,793)	–	(3,793)
Charge for the year	(5,057)	(4,224)	(9,281)
At 31 December 2016	(8,850)	(4,224)	(13,074)
Charge for the year	(5,059)	(4,608)	(9,667)
Impairment losses *(Notes 6, 11(i) and 11 (ii))*	(8,008)	(4,992)	(13,000)
At 31 December 2017	(21,917)	(13,824)	(35,741)
Carrying amount:			
At 31 December 2017	–	–	–
At 31 December 2016	13,067	9,600	22,667

(i) This intangible asset represents the Group's electronic distribution platform, www.CCIGMALL.com, which the Group acquired through the acquisition of an e-commerce business in 2015. In view of the increasing competition within the e-commerce sector, and the slower than expected growth and uncertainties surrounding the future of the Group's own e-commerce business, the management of the Group assessed the recoverable amount of the domain name (together with the related goodwill as described in Note 12) and as a result the carrying amount of the domain name was written down to RMBNil. Accordingly, an impairment loss of RMB8,008,000 was recognised in the profit or loss for the year ended 31 December 2017 (see Note 6).

11 INTANGIBLE ASSETS (CONTINUED)

(ii) This intangible asset represents an exclusive income right obtained in the 2016 from the development of a tailor-made e-commerce platform for a property developer in order to earn revenue from this property developer by assisting its property sales through the platform. In view of the slower than expected progress of the property projects under development by the above property developer, the management of the Group considered such projects may not be developed as planned. Accordingly, the management of the Group assessed the recoverable amount of the exclusive income right and as a result the carrying amount of the exclusive income right was written down to RMBNil. Accordingly, an impairment loss of RMB4,992,000 was recognised in the profit or loss for the year ended 31 December 2017 (see Note 6). The directors of the Company confirm that the Group is taking the necessary actions to recover all or part of the consideration paid to the above property developer.

12 GOODWILL

	RMB'000
Cost:	
At 1 January 2016, 31 December 2016,1 January 2017 and 31 December 2017	61,013
Accumulated impairment losses:	
At 1 January 2016 and 31 December 2016 and 1 January 2017	–
Impairment losses *(Note 6)*	(61,013)
At 31 December 2017	(61,013)
Carrying amount:	
At 31 December 2017	–
At 31 December 2016	61,013

On 25 March 2015, the Group acquired the 51% equity interests in Century Network Holding Limited ("Century Network") for a consideration of RMB76,392,000. The excess of the cost of the purchase over the net fair value of the identifiable net assets acquired of RMB61,013,000 was recorded as goodwill and allocated to the Century Network's e-commerce business (the "e-commerce CGU").

The recoverable amount of the e-commerce CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by the directors of the Company covering a five-year period. These cash flow projections adopted annual growth rates ranging from -9% to 50% (31 December 2016: 65% to 392%), which are based on the Group's experience and future business plans for this business and adjusted for other factors that are specific to the e-commerce CGU. Cash flows beyond the five-year period are extrapolated using a 3% (31 December 2016: 3%) long-term growth rate, which is based on the relevant industry growth forecasts. The cash flows are discounted using a discount rate of 32.2% (31 December 2016: 32.4%). The discount rate used is pre-tax and reflects specific risks relating to the e-commerce CGU.

Impairment losses of RMB61,013,000 has been recognised for the goodwill allocated to the e-commerce CGU, which also comprised the domain name included in intangible assets (see Note 11), for the year ended 31 December 2017.

13 TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables		
– Business partners in connection with the Group's digital point business	**879**	–
– Third parties	**3,417**	300,540
Bills receivables	**–**	25,990
	4,296	326,530
Less: allowance for doubtful debts	**(3,399)**	(276,533)
	897	49,997
Prepayments, deposits and other receivables:		
− Receivables from business partners in connection with the Group's digital point business	**2,962**	–
− Advances to suppliers	**2,149**	74,088
− Value added tax refundable	**6,265**	5,293
− Proceeds receivable for issuance of shares	**–**	246,352
− Advance to a third party	**31,765**	–
− Others	**45,738**	71,420
	88,879	397,153
Less: allowance for doubtful debts	**(40,130)**	(131,777)
	48,749	265,376
	49,646	315,373

All of the trade and other receivables, net of allowance for doubtful debts, are expected to be recovered or recognised as expenses within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables (net of allowance for doubtful debts), included in trade and other receivables, based on the invoice date, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**897**	29,314
Over 3 months but within 6 months	**–**	19,816
Over 6 months	**–**	867
	897	49,997

At 31 December 2017, trade and bills receivables of RMBNil (2016: RMB19,920,000) have been pledged to secure the Group's short-term bank and other loans.

13 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly.

The movements in the allowance for doubtful debts during the year are as follows:

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**408,310**	390,061
(Reversal of impairment losses)/impairment losses recognised *(Note 6)*	**(5,684)**	18,249
Uncollectible amounts written off	**(108)**	–
Decrease from disposal of subsidiaries *(Note 8)*	**(358,989)**	–
At 31 December	**43,529**	408,310

At 31 December 2017, trade and other receivables of RMB43,529,000 (2016: RMB408,310,000) were individually determined to be impaired. The individually impaired receivables related to customers and debtors that were in financial difficulties and management assessed that these receivables are irrecoverable. The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**–**	25,990
Less than 3 months past due	**897**	21,154
Over 3 months but within 6 months past due	**–**	1,986
Over 6 months past due	**–**	867
	897	24,007
	897	49,997

Receivables that were neither past due nor impaired at 31 December 2016 relate to bills receivable from the issuing banks for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

14 TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**1,120**	23,431
Payables for construction and purchase of property, plant and equipment	**–**	2,616
Payables for staff related costs	**8,787**	10,070
Payables for miscellaneous taxes	**614**	4,160
Payables for selling expenses incurred for digital point business	**14,705**	–
Interest payables	**–**	13,996
Others	**2,460**	44,529
	26,566	75,371
Financial liabilities measured at amortised cost	**27,686**	98,802
Deposits received from business partner in connection with the Group's digital point business	**1,000**	–
Deposits received in connection with disposals of assets classified as held-for-sale and subsidiaries	**–**	54,226
Deferred income in connection with digital point business	**5,256**	–
Advances received from customers	**154**	4,818
Provision for warranties	**–**	1,665
	34,096	159,511

All of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables included in trade and other payables, based on the invoice date, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**1,034**	2,824
3 to 6 months	**26**	651
Over 6 months	**60**	19,956
	1,120	23,431

15 SECURED NOTES

On 3 June 2015, the Company issued secured notes (the "Notes") with an aggregate face value of USD20,000,000 (equivalent to approximately RMB122,352,000) to Chance Talent Management Limited ("Chance Talent"), a third party. Upon issuance, the Notes bear interest at 13% per annum, payable semi-annually, and will mature on 3 June 2017. The Notes and the convertible bonds issued on 3 June 2015 (see Note 16) are secured by 505,581,818 ordinary shares (the "Pledged Shares") in the Company owned by Century Investment (Holding) Limited ("Century Investment"), an equity shareholder of the Company.

15 SECURED NOTES (CONTINUED)

On 13 January 2017, the Group has redeemed all of the Notes. The difference between the redemption value and the carrying amount of the Notes amounted to RMB1,228,000 has been recognised as a gain on redemption of the Notes in the current year (see Note 7(a)). On 15 March 2017, 396,238,156 ordinary shares of the Pledged Shares have been released.

16 CONVERTIBLE BONDS

The Group's convertible bonds are analysed as follows:

	Liability components	Derivative components	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2016	59,428	20,981	80,409
Accrued finance charges for the year *(Note 7(a))*	12,166	–	12,166
Interest paid	(8,738)	–	(8,738)
Exchange adjustments	4,179	1,374	5,553
Fair value changes on the derivative components *(Note 7(a))*	–	26,586	26,586
At 31 December 2016 and 1 January 2017	67,035	48,941	115,976
Convertible bond issued	59,321	27,449	86,770
Accrued finance charges for the year *(Note 7(a))*	13,126	–	13,126
Interest paid	(9,184)	–	(9,184)
Exchange adjustments	(3,895)	(1,625)	(5,520)
Fair value changes on the derivative components *(Note 7(a))*	–	(32,401)	(32,401)
Extinguishment of convertible bonds	(67,372)	(16,320)	(83,692)
At 31 December 2017	59,031	26,044	85,075

(i) On 3 June 2015, the Company issued two secured convertible bonds with face value of USD6,000,000 (equivalent to approximately RMB36,706,000) ("CB1") and USD4,000,000 (equivalent to approximately RMB24,470,000) ("CB2") to Chance Talent. Upon issuance, both convertible bonds bear interest at 13% per annum and will mature on 3 June 2018. CB1, CB2 and the Notes (see Note 15) are secured by 505,581,818 ordinary shares in the Company owned by Century Investment.

Upon issuance of these convertible bonds, Chance Talent can convert CB1 into the Company's ordinary shares at HK$1.06 per share (i.e. the conversion option) and CB2 into the Company's ordinary shares at HK$1.50 per share (i.e. the conversion option) at any time from 3 June 2016 till 3 June 2018. The conversion options are classified as derivative financial instruments and have been included in the balance of the convertible bonds in the consolidated statement of financial position.

CB1 and CB2 are subject to the fulfilment of covenants as stipulated in the bond instruments. At 31 December 2016, the Group has not fulfilled certain of the financial and operational related covenants, and accordingly, CB1 and CB2 have become repayable on demand and have been classified as short-term liabilities. On 27 February 2017, the Group and Chance Talent have reached an agreement, where Chance Talent agreed not to demand payment as a consequence of the above matters before the original maturity date of 2 June 2018.

16 CONVERTIBLE BONDS (CONTINUED)

(ii) On 20 December 2017, the Company has extinguished CB1 and CB2 and issued new secured convertible bonds with face value of USD10,000,000 (equivalent to approximately RMB66,066,000) ("CB3") to Chance Talent. Upon issuance, CB3 bears interest at 13% per annum and will mature on 3 June 2019. CB3 are secured by 109,343,662 ordinary shares in the Company owned by Century Investment. Chance Talent can convert CB3 into the Company's ordinary shares at HK$1.209 per share (i.e. the conversion option) at any time from 20 December 2018 till 3 June 2019. The conversion options are classified as derivative financial instruments and have been included in the balance of the convertible bonds in the consolidated statement of financial position.

17 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 28 June 2010 whereby the directors of the Company are authorised, at their discretion, to invite any full-time or part-time employees, executives, officers or directors (including independent non-executive directors) of the Group and any advisors, consultants, agents, suppliers, customers, distributors and such other persons who, in the sole opinion of the directors of the Company, will contribute or have contributed to the Group, to take up share options at HK$1 to subscribe for ordinary shares in the Company.

On 3 October 2016, 80,000,000 share options were granted to directors of the Company and employees of the Group under the above share option scheme. All the share options granted will vest after one year from the date of grant and will mature on 2 October 2019. Each share option gives the holder the right to subscribe for one ordinary share in the Company at HK$1.41 and is settled gross in shares.

(a) The term and condition of the share options granted is as follow:

	Number of instruments	**Vesting condition**	**Contractual life of share options**
Share options granted to directors: − On 3 October 2016	45,000,000	One year from the date of grant	3 years
Share options granted to employees: − On 3 October 2016	35,000,000	One year from the date of grant	3 years
Total share options granted	80,000,000		

(b) The number and weighted average exercise price of share options are as follows:

	2017	
	Weighted average exercise price *HK$*	**Number of share options**
Outstanding at the beginning of the year	**1.41**	**80,000,000**
Forfeited during the year	**1.41**	**(5,000,000)**
Outstanding at the end of the year	**1.41**	**75,000,000**
Exercisable at the end of the year	**1.41**	**75,000,000**

The share options outstanding at 31 December 2017 had a weighted average exercise price of HK$1.41 and a weighted average remaining contractual life of 1.8 years.

18 DEFERRED TAX ASSETS AND LIABILITIES

(a) The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Assets		Liabilities	
	Unused tax losses	**Impairment losses on trade and other receivables**	**Fair value adjustments on property, plant and equipment,lease prepayments and intangible assets and subsequent depreciation and amortisation**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	26,270	–	(5,241)	21,029
Credited to the consolidated statement of profit or loss and other comprehensive income *(Note 9 (a))*	14,234	9,983	1,295	25,512
At 31 December 2016	40,504	9,983	(3,946)	46,541
(Charged)/credited to the consolidated statement of profit or loss and other comprehensive income *(Note 9 (a))*	(40,504)	(9,983)	3,277	(47,210)
Decrease from disposal of subsidiaries *(Note 8)*	–	–	669	669
At 31 December 2017	–	–	–	–

(b) Reconciliation of deferred tax assets and liabilities recognised in the consolidated statement of financial position:

	2017	2016
	RMB'000	*RMB'000*
Deferred tax assets recognised in the consolidated statement of financial position	**–**	50,487
Deferred tax liabilities recognised in the consolidated statement of financial position	**–**	(3,946)
	–	46,541

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in the annual report, the Group has not recognised deferred tax assets in respect of unused tax losses and temporary differences of RMB276,296,000 at 31 December 2017 (31 December 2016: RMB1,058,324,000), as it is not probable that future taxable profits against which the losses and temporary differences can be utilised will be available in the relevant tax jurisdiction and entity. The unused tax losses at 31 December 2017 will expire on or before 31 December 2022.

19 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: RMBNil).

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the year

The directors of the Company did not recommend the payment of a dividend for the year ended 31 December 2016 (2015: RMBNil).

20 SHARE CAPITAL

(a) Issued share capital

	2017		2016	
	No. of shares '000	***USD'000***	*No. of shares '000*	*USD'000*
Authorised:				
Ordinary shares of USD0.01 each	**5,000,000**	**50,000**	5,000,000	50,000

	2017		2016	
	No. of shares '000	***RMB'000***	*No. of shares '000*	*RMB'000*
Ordinary shares of USD0.01 each, issued and fully paid:				
At 1 January	**1,671,615**	**108,209**	1,532,727	98,557
Shares issued *(Note 20(b))*	**151,515**	**10,404**	138,888	9,652
Share repurchased *(Note 20(c))*	**(9,621)**	**(635)**	–	–
At 31 December	**1,813,509**	**117,978**	1,671,615	108,209

(b) On 12 December 2016, the Company entered into a placing agreement with a placing agent, pursuant to which the Company agreed to place, through the placing agent, a maximum of 291,218,000 new shares to independent placees at a price of HK$1.98 per share. A placee subscribed for 138,888,000 shares in the Company in December 2016.

On 6 January 2017, another placee, namely Beijing Enterprises Real Estate (HK) Limited, subscribed for 151,515,000 shares in the Company. USD1,515,000 (equivalent to approximately RMB10,404,000) of the proceeds was credited to the Company's share capital. The remaining proceeds, net of transaction costs, of USD36,769,000 (equivalent to approximately RMB252,482,000) were credited to the Company's share premium account.

20 SHARE CAPITAL (CONTINUED)

(c) Purchase of own shares

During the year, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate price paid
		HK$	*HK$*	*HK$'000*
September 2017	7,811,000	1.13	1.05	8,482
October 2017	1,810,000	1.10	1.08	1,972
	9,621,000			10,454

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these ordinary shares of USD96,210 (equivalent to approximately RMB635,000). The premium paid on the repurchase of ordinary shares of HK$9,701,000 (equivalent to approximately RMB8,205,000) was charged to the share premium directly.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is engaged in electronic commerce ("**e-Commerce**") business through cross-border electronic distribution platforms and mobile applications sourcing, importing and channeling authentic goods from suppliers abroad and then distributing and reselling such goods to domestic retailers and consumers in the People's Republic of China (the "**PRC**"), and other general trading businesses. The Group has developed an electronic trading platform with a unique nature, and aims to integrate the resources and strategic advantages of the joint venture partners and operate the "Point-Connect" digital point alliance system ("**Changyou Digital Point Business Ecosystem Alliance**"). The points earned by customers through various channels can be exchanged globally in the form of virtual assets and credit for the consumption of merchandise, games, services and other commercial transactions.

Before the disposal of Chang Feng Holding (Hong Kong) Limited and its subsidiaries (the "**Chang Feng Group**") in April 2017, the Group was also an independent axle component provider for the PRC's medium duty truck ("**MDT**") and heavy duty truck ("**HDT**") aftermarket and also an independent axle assembly provider for the PRC's MDT and HDT original equipment manufacturers ("**OEMs**") market.

Owing to the continued deterioration of the business environment of the HDT market, the demand for axle assembles has declined significantly. In view of these circumstances, on 7 April 2017, the Group entered into a conditional agreement to sell the entire interest in Chang Feng Group, details of which are disclosed in the Company's announcement dated 7 April 2017 and the supplemental announcement dated 19 April 2017. The disposal was completed on 28 April 2017.

On 29 November 2016, Pointsea Holdings Company Limited ("**Pointsea Holdings**"), a non-wholly-owned subsidiary of the Company, entered into an agreement (the "**Agreement**") with Extra Step Investments Limited ("**Extra Step**"), a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited ("**China Mobile**") and Joy Empire Holdings Ltd. ("**Joy Empire**"), a wholly-owned subsidiary of Bank of China Group Investment Limited ("**Bank of China**"), in relation to (i) the subscription of shares in Pointsea Company Limited ("**PCL**"); and (ii) the cooperation in the development of the business of PCL and its subsidiaries. On 20 May 2017, China Eastern Airlines E-Commerce Co., Ltd (東方航空電子商務有限公司) ("**Eastern E-Commerce**"), a wholly-owned subsidiary of China Eastern Airlines Corporation Limited ("**China Eastern Airlines**"), executed a deed of accession and joined as a party to the Agreement in its capacity as one of the investors. Please refer to the announcements of the Company dated 30 November 2016, 7 December 2016 and 30 June 2017 for further details.

On 20 June 2017, all the conditions precedent under the Agreement had been fulfilled and completion of the subscription of additional shares in PCL by Pointsea Holdings, Extra Step, Joy Empire and Eastern E-Commerce took place pursuant to the terms of the Agreement. PCL is held as to 50% by Pointsea Holdings, around 16.67% by Extra Step, around 16.67% by Joy Empire and around 16.67% by Eastern E-Commerce.

Changyou Digital Point Business Ecosystem Alliance

The Group has developed a membership point alliance, namely the Changyou Digital Point Business Ecosystem Alliance with various business partners, including Bank of China, China Mobile and China Eastern Airlines. The users can redeem the alliance points for customized merchandises, games, services by using the "Changyou" platform. The platform intends to facilitate inclusive financing through the use of the internet by allowing users to exchange and convert points earned under various channels into alliance points, a virtual asset used for online and offline consumption in merchandise or service transactions, which aims to promote better financial planning and wealth preservation for potential consumers in a secured environment.

The Changyou Digital Point Business Ecosystem Alliance also proposes to feature new financial technologies such as blockchain, which enables users to effectively extract and develop big data samples and a precise and extensive database of consumer transactions and consumption behaviour for the purposes of developing a new three-in-one internet credit system comprising corporate credit, individual credit and commodity credit. The Group also plans to collaborate with leading enterprises for blockchain technology research and development in the future to develop a universal standardised software and system solution for blockchain technology so as to make full use of the Changyou Digital Point Business Ecosystem Alliance.

The "Changyou" platform was launched in September 2017. As of 31 December 2017, the number of users of the platform has increased substantially to approximately 10 million with only a few months of operations.

For the year ended 31 December 2017, revenue from the Changyou Digital Point Business Ecosystem Alliance business amounted to approximately RMB0.94 million (2016: Nil). The total revenue from this segment accounted for approximately 0.6% of the Group's total revenue.

e-Commerce business

The Group has started the e-Commerce business since March 2015, initially through the operations of business-to-business ("B2B") platform. This B2B mode is to set up a direct path between pre-identified the overseas suppliers, distributors and domestic retailers in the PRC. The Group has commenced practical businesses with hundreds of brand suppliers in Europe, covering thousands of brand producers, and established strategic cooperation relationships with famous brand groups. The Group has launched a business-to-customer e-Commerce platform since September 2015 in four main themes of product categories, namely affordable luxury, nursery, cosmetics and health. The Company has developed cooperation with well established partners in various regions around the world. Besides, the Group has other trading businesses.

For the year ended 31 December 2017, revenue from the Group's e-Commerce business segment amounted to approximately RMB134.0 million (2016: approximately RMB302.1 million). The total revenue from this segment accounted for approximately 80.0% (2016: approximately 78.4%) of the Group's total revenue.

Axle business

The Group sells axle assemblies directly to OEMs in the PRC on a made-to-order basis to match its customers' specification requirements. A small portion of axle components are occasionally sold to other axle assembly providers. The Group is an independent axle component provider for China's MDT and HDT aftermarket with diversified product offerings among independent axle component providers in the PRC.

The axle components are sold to customers in the aftermarket through its extensive sales, marketing and services network across the PRC. For the year ended 31 December 2017, revenue from the Group's OEM market and aftermarket business segment amounted to approximately RMB32.7 million (2016: approximately RMB83.4 million), representing a decrease of approximately 60.8% as compared with 2016, and accounted for approximately 19.5% (2016: approximately 21.6%) of the Group's total revenue. The axle business was disposed of in April 2017.

FINANCIAL REVIEW

Revenue

The Group recorded a consolidated revenue of approximately RMB167.6 million (2016: approximately RMB385.5 million), representing a decrease of approximately 56.5% as compared to 2016.

Revenue from the Changyou Digital Point Business Ecosystem Alliance business was approximately RMB0.94 million for the year ended 31 December 2017, representing approximately 0.6% (2016: Nil) of the Group's total revenue.

Revenue from the Group's e-Commerce business segment was approximately RMB134.0 million for the year ended 31 December 2017 (2016: approximately RMB302.1 million), representing approximately 80.0% (2016: approximately 78.4%) of the Group's total revenue.

Revenue from the Group's axle business segment for the year ended 31 December 2016 was diminishing as a result of the disposal of the axle business in April 2017.

Gross loss

Gross loss for the year ended 31 December 2017 amounted to approximately RMB7.6 million, as compared with the gross loss of approximately RMB12.7 million for the year ended 31 December 2016. The gross loss was mainly attributable to the gross loss in the amount of approximately RMB0.24 million, approximately RMB2.4 million and approximately RMB4.9 million generated from Digital point business, e-Commerce business and axle business respectively.

Other income

Other income of the Group for the year ended 31 December 2017 amounted to approximately RMB2.7 million (2016: approximately RMB22.8 million). The amount decreased was mainly attributable to the disposal of Kaifeng Changfeng Group on 20 May 2016.

Impairment losses

Impairment losses of the Group for the year ended 31 December 2017 amounted to approximately RMB68.3 million (2016: approximately RMB33.4 million), it mainly consists of reversal of impairment loss recognised in respect of trade and other receivable approximately RMB5.7 million (2016: impairment loss of approximately RMB18.2 million); impairment loss of goodwill of approximately RMB61.0 million (2016: Nil) and impairment loss of intangible asset of approximately RMB13.0 million (2016: Nil).

Selling and distribution expenses

Selling and distribution expenses of the Group for the year ended 31 December 2017 increased to approximately RMB48.3 million (2016: approximately RMB26.8 million). The increase was mainly attributable to the increase in sales and promoting activities for "Changyou" platform in 2017 and the increase in the equity-settled share-based payment expenses when comparing with in 2016.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2017 increased to approximately RMB113.4 million (2016: approximately RMB76.3 million). The increase was mainly attributable to the increase in the business scale of "Changyou".

Research and development costs

Research and development costs of the Group for the year ended 31 December 2017 increased to approximately RMB54.2 million (2016: approximately RMB23.2 million). The increase was mainly attributable to the development of blockchain technology.

Finance costs

The Group incurred finance costs of approximately RMB4.8 million for the year ended 31 December 2017, which represented approximately 2.9% (2016: approximately 22.1%) of its revenue. The decrease in percentage to revenue in 2017 was mainly due to the net effect of decrease in revenue from approximately RMB385.5 million in 2016 to approximately RMB167.6 million in 2017, decrease in finance charges on the secured notes and convertible bonds amounting to approximately RMB17.8 million and decrease in changes in fair value on the derivative components of convertible bonds amounting to approximately RMB59.0 million in 2017.

Loss for financial guarantee contracts issued

Loss for financial guarantee contracts issued represented the maximum exposure as of 31 December 2016 arising from the guarantees for bank loans drawn by a previous subsidiary of the Group disposed of on 20 May 2016. No such guarantee was granted as at 31 December 2017.

Taxation

Income tax expenses of approximately RMB47.2 million was recorded for the year ended 31 December 2017 (2016: income tax credit of approximately RMB25.5 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, cash and cash equivalents of the Group were approximately RMB393.0 million (31 December 2016: approximately RMB90.0 million). As compared to 2016, cash and cash equivalents increased by approximately RMB303.0 million, mainly due to net cash outflow arising from operating activities of approximately RMB150.7 million (2016: approximately RMB71.3 million), net cash outflow arising from investing activities of approximately RMB38.4 million (2016: approximately RMB27.2 million) and net cash inflow from financing activities of approximately RMB509.3 million (2016: net cash outflow of approximately RMB13.6 million).

During the year, the Company bought back a total of 9,621,000 shares of the Company in September and October 2017 under the general mandate granted to the Directors in the annual general meeting of the Company held on 29 May 2017. All the repurchased shares had been cancelled as of 31 December 2017. The total consideration paid to buy back these shares was approximately HK$10.5 million. Details of those transactions are as follows:

Month of buy-back	Number of shares bought back	Price per shares Highest	Lowest	Aggregate price
		HK$	*HK$*	*HK$*
September	7,811,000	1.13	1.05	8,481,520
October	1,810,000	1.10	1.08	1,972,300

On 7 December 2017, the Company made an announcement in relation to the issuance of convertible bonds. US$10 Million 13% secured convertible bonds was subscribed by Chance Talent Management Limited ("**Chance Talent**"), an indirect wholly-owned special purpose vehicle of CCB International (Holding) Limited. The US$10 million payable by Chance Talent for the subscription of the convertible bonds was satisfied by way of off-setting the aggregate outstanding amount of US$10 million payable by the Company under the previous convertible bonds issued by the Company to Chance Talent in June 2015. Accordingly, no proceeds arose from the issue of the convertible bonds. The issuance of convertible bonds was completed on 20 December 2017.

As of 31 December 2017, the actual use of the Proceeds from the placing of shares, which was completed on 6 January 2017, was as follows:

Usage	**Original use of the Proceeds** *RMB (million)*	**Revised use of the Proceeds (as announced)** *RMB (million)*	**Actual use of the Proceeds during Relevant Period** *RMB (million)*
To fund the general working capital of the Company other than the Changyou Digital Point Business Ecosystem Alliance business for the year ended 31 December 2017	53	53	53
To fund the Company's subscription of 50.1% in the issued share capital of Treasure Ease Holdings Limited	40	40	40
To partially fund the working capital requirement for operating the Changyou Digital Point Business Ecosystem Alliance business for the year ending 31 December 2017, which includes (a) capital expenditure (such as acquisition of information system hardware, software, establishment of technological platform, and construction of engine rooms); and (b) operating expense requirement (such as marketing expenses, human resources expenses, and office rent)	31	76	76
To fund (a) the capital expenditure for the year ending 31 December 2018; and (b) the operating expense, for developing and operating the Changyou Digital Point Business Ecosystem Alliance business and e-Commerce business	377	229	–
For interest-bearing instrument to allow flexibility in the Company's financial and treasury management	–	47	31
To fund the repurchase of shares of the Company	–	9	9
For the repayment of secured loan	–	47	47
Total	501	501	256

As of 31 December 2017, the total balance of the unutilised proceeds was approximately RMB256 million.

As at 31 December 2017, net current assets of the Group amounted to approximately RMB408.7 million (31 December 2016: net current liabilities of approximately RMB137.8 million). As at 31 December 2017, the current ratio (i.e. total current assets/total current liabilities) of the Group was approximately 12.99 (31 December 2016: approximately 0.79).

As at 31 December 2017, total assets of the Group were approximately RMB451.6 million (31 December 2016: approximately RMB733.8 million) and total liabilities were approximately RMB119.2 million (31 December 2016: approximately RMB647.2 million). The debt ratio as at 31 December 2017 (i.e. total liabilities/total assets) was 0.26 as compared to 0.88 as at 31 December 2016.

As at 31 December 2017, the Group had total borrowings (including bank and other loans and convertible bonds) of approximately RMB85.1 million (31 December 2016: approximately RMB452.8 million). The gearing ratio (i.e. total borrowing/total equity) was approximately 0.26 (31 December 2016: approximately 5.23).

Trade and other receivables

Trade and other receivables of the Group as at 31 December 2017 were approximately RMB49.6 million (31 December 2016: approximately RMB315.4 million). The decrease in the balance was mainly due to the proceeds receivable from the placement of new shares of the Company as at 31 December 2016 was received in 2017.

Inventories

The inventory balance of the Group as at 31 December 2017 was approximately RMB94,000 (31 December 2016: approximately RMB29.3 million). The stock turnover increased from 8.58 times per year in 2016 to 11.94 times per year in 2017 as the e-Commerce business of the Group required minimal level inventory.

Trade and other payables

Trade and other payables of the Group as at 31 December 2017 were approximately RMB34.1 million (31 December 2016: approximately RMB159.5 million). The decrease was mainly due to disposal of axle business during the year.

Pledged assets

As at 31 December 2017, the Group did not have pledged assets (31 December 2016: approximately RMB107.1 million). The following assets and their respective carrying values as at the end of the reporting period are pledged to secure the Group's bank and other loans.

	2017	2016
	RMB'000	*RMB'000*
Property, plant and equipment	–	75,316
Lease prepayments	–	11,484
Trade and other receivables	–	19,920
Pledged bank deposits	–	428
	–	107,148

Contingent liabilities

As at 31 December 2017, the Group had no significant contingent liabilities (31 December 2016: RMB Nil).

Capital commitment

As at 31 December 2017, the Group had no contracted capital commitments which were not provided in the financial statements. As at 31 December 2016, the Group committed to inject RMB100 million in respect of investment in a company to be incorporated under the formation of joint ventures.

Employees and remuneration policy

As at 31 December 2017, the Group had 283 employees (31 December 2016: 410 employees). For the year ended 31 December 2017, total staff costs were approximately RMB87.1 million (2016: approximately RMB68.1 million).

During the year, the Group also provided internal training, external training and correspondence courses for its staff in order to promote self improvement and enhancement of skills relevant to work. The remuneration of the Directors was determined with reference to their position, responsibilities and experience and prevailing market conditions.

Foreign exchange risk

The business of the Group is mainly located in the PRC and most of the transactions are denominated in Renminbi. Most of the assets and liabilities of the Group are computed in Renminbi. As at 31 December 2017, the Group's net foreign currency assets amounted to approximately RMB183.3 million (31 December 2016: net foreign currency assets of approximately RMB58.5 million). During the year ended 31 December 2017, the Group did not utilize any future contracts, currency borrowings and otherwise to hedge against its foreign exchange risk. However, the Group will continue to monitor the risk exposures and will consider to hedge against material currency risk if required.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the disposal of the axle business as disclosed in this announcement, there were no other significant investments held nor material acquisitions or disposals of subsidiaries during the reporting period and there was no plan authorised by the Board for other material investments or additions of capital assets as at the date of this announcement.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

On 20 December 2017, the Company issued a secured convertible bonds with face value of US$10 million to Chance Talent. The convertible bonds bear interest at 13% per annum and will mature on 3 June 2019. As at the date of this announcement, Century Investment (Holding) Limited pledged its 109,343,662 ordinary shares in the Company (the "**Charged Shares**") to secure the obligation of the Company under the secured convertible bonds. The Charged Shares represent approximately 6.02% of the issued share capital of the Company. For further details of this transaction, please refer to the announcement of the Company dated 7 December 2017.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

PROSPECTS

Changyou Digital Point Business Ecosystem Alliance

Changyou Digital Point Business Ecosystem Alliance aims at building a general beneficial commercial and financial services platform for unifying the issue, trading, conversion and settlement of digital points. "Changyou" integrates the extensive point resources from the joint venture shareholders and partners, and, at the same time, relies on the advantageous offline payment scenarios of a partner who possesses millions merchants in China, so as to create more advantages for point reward from the process of payment to scenarios through the "e-wallet" in "Changyou", so that the users' experience of point reward could be further enriched and improved. Specifically, "Changyou" connects the point entitlements from well-known and leading enterprises with the vertical and rigid consuming scenarios of various industries in the model of dual-wheels driving, so that users could enjoy the increase of advantages and upgrade of experience from the point reward services. A win-win scenario could thus be achieved via this business model by increasing the loyalty of users while driving the principal businesses of the alliance members.

In addition to the consumption business from the traditional point reward business, "Changyou" has introduced diversified and differentiated entertainment and lifestyle products and services. The platform also introduces consumer finance business to its massive users base by leveraging on the platform's advantages of flow and data as well as the rigid scenarios and products provided by the alliance members within the vertical field, which would generate revenue of a large scale for the finance business in the near future.

Also, the "Changyou" platform adopts an advanced and reliable technical framework so as to ensure the users' experience and the platform security. Blockchain technology will be gradually applied to the scenarios including account opening, trading, issue and settlement of points in order to increase the popularity of digital points trading and enhance the reliability of credit payment.

In 2018, "Changyou" will connect more digital points with more scenarios in the model of dual-wheels driving so as to further enrich and improve the users' experience. "Changyou" is in the process of negotiating and introducing well-positioned alliance members from industries including petrochemical, travel, hospitality and entertainment for increasing the source of digital points from various industries. At the same time, it will introduce scenarios and products with rigid demand within the vertical field from industries such as healthcare, education and travel in order to satisfy the needs for consumption upgrade and consumer finance scenarios, and finally complete the building of a business model of dual-wheels driving for "Changyou".

Given the nature of the business and the operations, "Changyou" is an asset light business which requires of liquid assets to develop and expand its business. The Group will continue to explore and consider any fund raising opportunities for this business segment at an appropriate valuation.

The Group will place more focus on the development of the Changyou Digital Point Business Ecosystem Alliance which is expected to generate a higher return and is also in all times looking for business opportunities on financial sector, including loan financing services and securities trading, which will supplement our "Changyou" platform with a view to increase its users base, users profiles, enhance revenue and return.

e-Commerce business

At present, there are a lot of business opportunities available to our e-Commerce business, which is experiencing rapid growth in the PRC. Looking forward, the Group will commit time and resources to continuously develop its e-Commerce business. In order to leverage the resources committed for the e-Commerce and internet finance, the Group will continue to explore other related business opportunities, including provision of services to fit its customers' needs in their online business.

Given the keen competition in the e-Commerce sector, the Group will consider to put less focus on this low profit margin business and will focus on our newly developed business of Changyou Digital Point Business Ecosystem Alliance.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Company's shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for shareholders.

During the year ended 31 December 2017, the Company had complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), save for the deviation as set forth below:–

Code Provision A.6.7

Code Provision A.6.7 of the CG Code Provision that independent non-executive directors and non-executive directors should attend general meetings of the Company. Mr. Chan Chi Keung, Alan was not able to attend the annual general meeting of the Company held on 29 May 2017 due to his other engagement in other commitments.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Tuesday, 29 May 2018. A notice convening the annual general meeting will be published and despatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 24 May 2018 to Tuesday, 29 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to determine who are entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Tuesday, 29 May 2018, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 23 May 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Save for the placing of shares of the Company which was completed on 6 January 2017 and the share repurchases as disclosed in this announcernent neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company during the year ended 31 December 2017.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the year ended 31 December 2017, they were in compliance with the required provisions set out in the Model Code. All Directors declared that have compled with the Model Code for the year ended December 2017.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors, and review the effectiveness of the systems of risk management and internal control of the Group.

PUBLICATION OF RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

This results announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at www.fortunetecomm.com. The annual report of the Company for the year ended 31 December 2017 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and posted on the above websites in due course.

By order of the Board
Fortunet e-Commerce Group Limited
Mr. Cheng Jerome
Chairman

Hong Kong, 19 March 2018

As at the date of this announcement, the executive Directors are Mr. Cheng Jerome and Mr. Yuan Weitao; the non-executive Director is Mrs. Guo Yan; and the independent non-executive Directors are Mr. Wong Chi Keung, Mr. Chan Chi Keung, Alan and Mr. Liu Jialin.