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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The Board is pleased to announce the consolidated annual results of the Group for the year ended 31 December 2017, together with the comparative information for the year ended 31 December 2016.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the year ended 31 December		
	2017	2016	**Change%**
	(RMB'000)	*(RMB'000)*	
Revenue	**131,697**	188,133	(30.0)
Gross profit	**92,854**	130,949	(29.1)
Loss before tax	**(389,635)**	(153,269)	154.2
Loss after tax	**(388,780)**	(160,915)	141.6
Loss for the year attributable to owners of the parent	**(377,455)**	(151,002)	150.0
Non-IFRSs Measures			
– Adjusted net (loss)/profit attributable to owners of the parent (unaudited)[1]	**(45,152)**	5,474	(924.8)
LOSS PER SHARE ATTIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted	**RMB(0.24)**	RMB(0.10)	

Note:

(1) Please refer to the section headed "Non-IFRSs measures – Adjusted net loss or profit attributable to owners of the parent" for definition of adjusted net (loss)/profit attributable to owners of the parent.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Overview

2017 marked another year of robust growth for China's online game industry. According to a report published jointly by the Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音數協游戲工委), Gamma Data (伽馬數據), and International Data Corporation (IDC), total revenue from China's online game industry for 2017 was RMB203.6 billion, representing an increase of 23.0% year-over-year, with mobile games being the biggest contributor accounting for 57.0% of the total revenue. The number of online games and mobile games users in China reached 583 million and 554 million in 2017, representing an increase of 3.1% and 4.9% year-over-year, respectively.

Despite the intense competition in China's online game market, there were two major market trends in 2017 which drove growth and brought new opportunities for companies in the industry:

i) HTML5 games were popularised and became the fourth mainstream category following client-based, web and mobile application games in China. With Tencent Holdings Limited ("Tencent") enabling access to HTML5 games on its WeChat and QQ platforms, there was an uptick in conversion of non-existing game users into gamers;

ii) The number of female gamers continued to grow, creating a 'blue ocean' market. According to a report jointly published by the Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音數協游戲工委) and TalkingData, the number of female gamers in China increased to 260 million in 2016 from less than 1 million in 2013, representing a compound annual growth rate of about 538.3%. This number is expected to continue to grow over the next few years. Female gamers not only grew in population size, but also demonstrated strong potential in revenue contribution as shown in developed game markets, such as North America and Japan.

During the year ended 31 December 2017, the Company generated total revenue of approximately RMB131.7 million, representing a year-over-year decrease of 30.0%. Net loss attributable to owners of the parent for the year ended 31 December 2017 was approximately RMB377.5 million as compared to RMB151.0 million for the year ended 31 December 2016. Adjusted net loss attributable to owners of the parent was approximately RMB45.2 million as compared to adjusted net profit attributable to owners of the parent of RMB5.5 million for the year ended 31 December 2016. The decrease in total revenue and the increase in net loss attributable to the owners of the parent for the year ended 31 December 2017 was primarily due to: (i) decrease in revenue from the Group's existing games as they reached mature stages of their product life cycles; (ii) delay in launching new games due to the Group's strategic decision to invest additional development time and resources to enhance the quality of such games; (iii) underperformance of newly launched games in 2017; and (iv) the diversification of game categories currently under development required additional time to recruit and establish R&D teams. The increase in the net loss attributable to owners of the parent for the year ended 31 December 2017 was also due to an increase in impairment loss of goodwill made of approximately RMB300.1 million which is related to goodwill recognised in 2013 pursuant to our acquisition of Kailuo Tianxia as disclosed in the prospectus dated 25 November 2014 issued by the Company as compared to impairment loss of goodwill of RMB106.4 million made for the year ended 31 December 2016.

In 2017, the Company launched 8 games in total. Four of the games were launched in the first half, including I Am the Hero (英雄就是我), Push Heroes (推拉英雄), Eat Fatty (你胖你先吃) and Tiny Gun (小小槍), were developed and launched by Crazyant (瘋狂螞蟻), one of the Company's studios focusing on high quality in-house developed games. I Am the Hero (英雄就是我) was published on Steam in January, on Tencent's WeGame in April and on Apple's App Store in November 2017 respectively and received very positive user feedback on all platforms. Push Heroes (推拉英雄) was recommended on Google Play and Apple's App Store global home page in May 2017. Eat Fatty (你胖你先吃) was recommended on the home page of Apple's Mainland China and Hong Kong App Store in June 2017.

The other 4 games were launched in the second half of 2017, which were The Initial (初體計劃), Super Phantom Cat II (超級幻影貓2), Sprites Legend (靈妖記－神仙道外傳) and Carrot Fantasy for WeChat (保衛蘿蔔－迅玩版). The Initial (初體計劃) was launched in July 2017 on Steam and was ranked number 1 on the best-selling list for 1 week following its launch. Super Phantom Cat II (超級幻影貓2) was launched in August 2017 on Apple's platforms globally in 11 different languages and was recommended by Apple on its App Store's home page globally. The game took the number 1 spot on the US adventure games list in terms of free downloads on the second day after it was launched and maintained this rank for 4 consecutive days. Sprites Legend (靈妖記－神仙道外傳) was launched in September 2017 and ranked top 10 on the best-selling list on Apple's App Store shortly after it was launched. Last but not the least, as one of the first batch of mini games launched on Tencent's WeChat platform, Carrot Fantasy for WeChat (保衛蘿蔔－迅玩版) was introduced together with mini games on WeChat in December 2017. To further capture market opportunities in HTML5 games, the Company also launched Carrot Defense, an HTML5-based version of Carrot Fantasy (保衛蘿蔔) on Facebook's platform globally in February 2018.

Intellectual property ("IP") continues to be the most important asset of the Company and continuous efforts were made in 2017 to further improve the business value of IPs and expand the IP licensing business. In January 2017, the major characters in the Company's Carrot Fantasy (保衛蘿蔔) game series were invited to join the 2017 cartoon annual gala of the BTV KAKU Children Channel, which is one of the most popular satellite television channels for children in Mainland China. In March 2017, licensed squeeze toys with different vivid facial expressions created from Carrot Fantasy's (保衛蘿蔔) main characters went on sale in all 7-11 chain stores in Guangdong Province of the PRC. In addition, the Company issued to Yunnan Baiyao (雲南白藥), a well-recognised dental health product manufacturer in China, a license to use the images of Carrot Fantasy (保衛蘿蔔) on the design and packaging of their dental health and personal care products. The images of Carrot Fantasy (保衛蘿蔔) were also licensed to be used on AESIR's cell phone cases. The Company not only took the initiative to license its online game IPs for merchandise, but also worked with other well-known brands to cross promote their respective brands, including Meipai (美拍), Mirinda and Baidu Map (百度地圖). In terms of offline events, the Company worked with Beijing Xiedao Resort (蟹島度假村) and decorated a 200-square venue in the resort with the Carrot Fantasy (保衛蘿蔔) theme and sold licensed merchandise during the school holiday in summer 2017.

To keep pace with the fast-changing market, the Company has brought on board new talent and implemented a few organisational initiatives with an effort to keep the competitiveness of its R&D teams. In May 2017, the Company opened a Shenzhen office to underpin its long-term development.

To strengthen its game distribution network, the Company invested in Ewan (Shanghai) Network Technology Co., Ltd. ("Ewan"), a company primarily engaged in developing and operating its emerging TapTap mobile game distribution platform, in May 2017. TapTap is not only a mobile game publishing platform, but also a game community and media platform. This superior mobile game platform has a large number of high quality games and developers as well as a remarkable number of high-spending gamers.

Principal risks relating to our business

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

- We face uncertainties in the continued growth of the mobile game and web game industries and the market acceptance of our mobile games and web games.

- Delays of game launches could negatively affect our operations and prospects;

- If we are unable to extend the relatively short expected life cycle of our web games and mobile games or if our games do not maintain their popularity during their expected life cycle, our business, financial condition, results of operations and prospects could be material and adversely impacted.

- We rely on third-party distribution and publishing platforms to distribute and publish our games. If these third-party distribution and publishing platforms fail to effectively promote our games on their platforms or otherwise fulfill their obligations to us, our business and results of operations could be materially and adversely affected.

- We may not be able to adapt to the rapidly evolving mobile game and web game industries in China, especially to changes in technology. If we fail to anticipate or successfully implement new technologies, our games may become obsolete or uncompetitive, and our business, financial conditions, results of operations and prospects could be materially and adversely affected.

- We depend on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services or are unable to attract new key employees.

- Goodwill impairment could negatively affect our reported results of operations.

To mitigate the identified risks, we regularly monitors risks and reviews business strategies and financial results. We implemented the following strategies to ensure the risks are managed:

- We set up a strategic development department to track and respond to the changes in players' preferences in a timely and effective manner;

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

- We continue to actively monitor the progress of our pipeline games;

- We constantly enhance or upgrade our existing games with new features that players find attractive;

- To keep pace with the market, we have brought on board new talent and implemented a leaner corporate structure in an effort to maintain the competitiveness of our R&D teams;

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

Outlook for 2018

With the tremendous efforts in organisational adjustment in 2017, the Company will expand its new product offerings in 2018 and continue to focus on introducing high quality games to users supported by three major pillars: hardcore games, quick response and continuous exploration.

Hardcore games: Leveraging on its existing popular IPs, the Company will develop and launch sequels to the IPs while incorporating new gameplay mechanics to adapt to the fast-changing market. The games currently under development in this category are Carrot Fantasy X (保衛蘿蔔X) and Sanguozhiren II (三國之刃2).

Quick response: To capture the opportunity window of HTML5 games, the Company will introduce other casual HTML5 games in addition to Carrot Fantasy for WeChat (保衛蘿蔔－迅玩版) and Carrot Defense, followed by midcore simulation and hardcore RPG HTML5 games at a later stage.

Continuous exploration: The Company will continue to explore opportunities in vertical categories, independent games, Steam and console platforms in 2018.

The Company expects to launch 10 games in total in 2018.

In terms of IP enhancement and licensing, the Company will continue to expand the Carrot Fantasy (保衛蘿蔔) IP licensing business to more merchandise and services, creating an additional stream of revenue while also promoting the Carrot Fantasy (保衛蘿蔔). In addition, a Carrot Fantasy (保衛蘿蔔) cartoon is under development and is expected to be released in 2019.

Event after the year ended 31 December 2017

The Company entered into an exclusive licensing agreement with Meitu Networks (美圖網), as disclosed in the Company's announcement dated 21 March 2018, which allows the Company to operate, develop and manage the game businesses for Meitu Networks (美圖網) based on their game distribution platforms and channels. Leveraging Meitu Networks' (美圖網) tremendous and highly engaged user base, female users in particular, and the Company's extensive experience in game development and operation, the cooperation enables the Company uniquely positioned to seize the opportunity of the emerging female game market.

Based on the cooperation established with Meitu Networks (美圖網), the Company is believed to be able to enhance its game distribution business, strengthen its game distribution network and broaden its game distribution revenue base.

Final Dividend

The Board did not declare a final dividend for the year ended 31 December 2017 (the year ended 31 December 2016: Nil)

FINANCIAL REVIEW

Operating Information

Our Games

During the year, we continued to focus on developing high quality mobile games and PC games to meet the constantly changing demand of gamers and cope with the increasingly intense competition in the game industry. One of our studios in Xiamen focusing on high quality casual games published 4 casual games during the year ended 31 December 2017 under the independent brand name of Crazyant (瘋狂螞蟻) and we also launched The Initial (初體計劃), Super Phantom Cat II (超級幻影貓2), Sprites Legend (靈妖記－神仙道外傳) and Carrot Fantasy for WeChat (保衛蘿蔔－迅玩版), which have received very positive feedback.

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

	For the year ended 31 December			
	2017		2016	
	(RMB'000)	***(% of Total Revenue)***	*(RMB'000)*	*(% of Total Revenue)*
Game Operation				
Web games	**15,850**	**12.0**	25,961	13.8
Mobile games				
RPGs	**86,439**	**65.6**	97,148	51.6
Casual	**7,320**	**5.6**	37,377	19.9
PC games	**3,233**	**2.5**	–	–
Total	**112,842**	**85.7**	160,486	85.3

The contribution to total revenue of the Group from game operation remained stable, recording at 85.7% of total game operation revenue in 2017 as compared with 85.3% in 2016. Contribution from our RPG mobile games to total revenue increased from 51.6% in 2016 to 65.6% in 2017 primarily due to the launch of Sprites Legend (靈妖記－神仙道外傳) in the second half of 2017.

Our Players

We assess our operating performance using a set of key performance indicators, which include MAUs, MPUs and ARPPU. Fluctuations in our operating data are primarily a result of changes in the number of players who play, download (in the case of mobile games and PC games) and pay for virtual items and premium features in our games. Using these operating data as our key performance indicators can help us monitor our ability to offer engaging online games, the continued popularity of our games, the monetization of our player base and the degree of competition in the online game industry, so that we can implement better business strategies.

As at 31 December 2017, (i) our RPG mobile games and web games, had approximately 217.8 million cumulative registered users, composed of approximately 170.2 million users for web games and approximately 47.6 million users for mobile games; (ii) our casual games had approximately 476.1 million cumulative activated downloads; and (iii) our PC games had approximately 137,000 cumulative activated downloads. For the month of December 2017, (i) our RPG mobile games and web games had approximately 0.9 million MAUs in aggregate, composed of approximately 0.6 million MAUs for mobile games and approximately 0.3 million MAUs for web games; while (ii) our casual games had approximately 9.8 million MAUs.

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

	For the year ended 31 December		
	2017	2016	**Change%**
Average MPUs			
Web games (RPGs) (000's)	**15**	25	(40.0)
Mobile games (RPGs) (000's)	**67**	86	(22.1)
Casual (000's)	**120**	503	(76.1)
ARPPU			
Web games (RPGs) (RMB)	**90.3**	85.2	6.0
Mobile games (RPGs) (RMB)	**134.9**	94.0	43.5
Casual (RMB)	**5.6**	6.2	(9.7)

Note:

(1) Duplicated paying users of our games published on our own platforms were not eliminated during calculation.

Average MPUs for mobile RPG games decreased from approximately 86,000 for the year ended 31 December 2016 to approximately 67,000 for the year ended 31 December 2017, primarily due to the maturing of one of our hit titles, San Guo Zhi Ren (三國之刃), which reached the mature stage of its lifecycle in 2016 and the later stages of its lifecycle during the year ended 31 December 2017. Average MPUs for mobile casual games decreased from approximately 503,000 for the year ended 31 December 2016 to approximately 120,000 for the year ended 31 December 2017. This was mainly attributable to the decrease in the average MPUs for the Carrot Fantasy (保衛蘿蔔) game series, which began transitioning into the late stages of their expected lifecycles. MPUs for web games were approximately 15,000 for the year ended 31 December 2017 as compared to approximately 25,000 for the year ended 31 December 2016. The decrease was due to our web games reaching the later stages of their expected lifecycles in 2017, as well as our strategic shift from web games to mobile games which began in 2013.

RPG mobile games ARPPU increased to approximately RMB134.9 for the year ended 31 December 2017 as compared to approximately RMB94.0 for the year ended 31 December 2016. The increase was primarily driven by the launch of Sprites Legend (靈妖記－神仙道外傳) in September 2017 with higher ARPPU due to its self-operation mode under which the Company fully recognises the game's revenue and the increasing willingness of loyal gamers to spend on our existing RPG mobile games during the mature stages of their lifecycles. Web games ARPPU increased slightly from approximately RMB85.2 for the year ended 31 December 2016 to approximately RMB90.3 for the year ended 31 December 2017, primarily driven by an increase in ARPPU for the web version of Shen Xian Dao (神仙道), which was launched in 2011 and is currently in the mature stage of its lifecycle where loyal players are more willing to spend. Casual mobile games' ARPPU decreased slightly from approximately RMB6.2 for the year ended 31 December 2016 to approximately RMB5.6 for the year ended 31 December 2017. The decrease was primarily due to a decrease in ARPPU from Carrot Fantasy game series.

As part of our business strategy, we continue to promote in-game purchases, frequently roll out upgrades to enhance the features of our games and maintain user interest, and continue to launch various in-game promotions and activities. Our dedicated customer service team continued to provide timely customer services via our in-game customer service system. We believe this played a significant role in retaining our players and expanding our player base.

The year ended 31 December 2017 compared to the year ended 31 December 2016

The following table sets forth the income statement of our Group for the year ended 31 December 2017 as compared to the year ended 31 December 2016.

	For the year ended 31 December		
	2017	2016	**Change %**
	(RMB'000)	*(RMB'000)*	
Revenue	**131,697**	188,133	(30.0)
Cost of sales	**(38,843)**	(57,184)	(32.1)
Gross profit	**92,854**	130,949	(29.1)
Other income and gains	**29,865**	99,692	(70.0)
Selling and distribution expenses	**(40,099)**	(11,507)	248.5
Administrative expenses	**(64,327)**	(60,951)	5.5
Research and development costs	**(93,701)**	(180,085)	(48.0)
Finance costs	**(1,333)**	(970)	37.4
Other expenses	**(312,676)**	(129,626)	141.2
Share of losses of associates	**(218)**	(771)	(71.7)
LOSS BEFORE TAX	**(389,635)**	(153,269)	154.2
Income tax credit/(expense)	**855**	(7,646)	(111.2)
LOSS FOR THE YEAR	**(388,780)**	(160,915)	141.6
Attributable to:			
Owners of the parent	**(377,455)**	(151,002)	150.0
Non-controlling interests	**(11,325)**	(9,913)	14.2

Revenue

The following table sets forth a breakdown of our revenue for the years ended 31 December 2017 and 2016:

	For the year ended 31 December			
	2017		2016	
	(RMB'000)	***(% of Total Revenue)***	*(RMB'000)*	*(% of Total Revenue)*
Game Operation	**112,842**	**85.7**	160,486	85.3
Online game distribution	**2,916**	**2.2**	1,886	1.0
Licensing and IP-related income	**9,698**	**7.4**	14,503	7.7
Advertising revenue	**5,980**	**4.5**	11,064	5.9
Technical service income	**261**	**0.2**	194	0.1
Total	**131,697**	**100.0**	188,133	100.0

Total revenue decreased by approximately 30.0% to approximately RMB131.7 million for the year ended 31 December 2017 from the year ended 31 December 2016.

Revenue from game operation decreased by approximately 29.7% to approximately RMB112.8 million for the year ended 31 December 2017 from the year ended 31 December 2016. This decrease was primarily due to San Guo Zhi Ren (三國之刃) hitting the mature stage of its lifecycle in 2016 and later stages of its lifecycle in 2017. The decrease in the revenue from our other existing games also dragged down our total revenue as they reached the mature stages of their respective product lifecycles. In addition, the decrease was also due to the delay in launching our new key games as a result of the Group's strategic decision to invest additional development time and resources to enhance the quality of such games. Other than Super Phantom Cat II (超級幻影貓2) and Sprites Legend (靈妖記－神仙道外傳), which were launched on 17 August 2017 and 6 September 2017 respectively, the Group did not launch other new key games in 2017. Furthermore, the underperformance of newly launched key games in 2017 with limited contribution to the Group's revenue was another reason for the decrease.

Revenue from online game distribution increased by 54.6% to RMB2.9 million for the year ended 31 December 2017 from the year ended 31 December 2016, which was primarily due to the launch of new games by our overseas game distribution and operation team.

Licensing and IP-related income decreased by approximately 33.1% to approximately RMB9.7 million for the year ended 31 December 2017 from the year ended 31 December 2016. The decrease was primarily attributable to the recognition of a one-off licensing fee for the Korean version of San Guo Zhi Ren (三國之刃) of approximately RMB4.0 million upon termination of its operation during the year ended 31 December 2016 while there was no such one-off licensing fee recognised during the year ended 31 December 2017.

Advertising revenue decreased by approximately 46.0% to approximately RMB6.0 million for the year ended 31 December 2017 from the year ended 31 December 2016, primarily due to Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy II (保衛蘿蔔2) reaching late stages of their lifecycles as the number of active users declined. Both games have significantly exceeded the industry average lifespan for a game. The decrease was partially offset by advertising revenue of newly launched casual games from our Crazyant (瘋狂螞蟻) studio and Super Phantom Cat II (超級幻影貓2).

Technical service income increased by approximately 34.5% to approximately RMB0.3 million for the year ended 31 December 2017 from the year ended 31 December 2016, which was primarily due to an increase in technical support income generated by our Chengdu subsidiary through providing technical support services.

Cost of sales

Our cost of sales decreased by approximately 32.1% from approximately RMB57.2 million for the year ended 31 December 2016 to approximately RMB38.8 million for the year ended 31 December 2017, primarily due to the decrease in amortisation cost relating to intangible assets pursuant to the acquisition of Kailuo Tianxia as disclosed in the Prospectus from RMB20.5 million for the year ended 31 December 2016 to RMB3.6 million for the year ended 31 December 2017 which was due to the full amortisation of Carrot Fantasy I (保衛蘿蔔1)'s IP and the impairment of Carrot Fantasy II (保衛蘿蔔2)'s IP in the second half of 2016.

Gross profit and gross profit margin

Gross profit decreased by 29.1% from approximately RMB130.9 million for the year ended 31 December 2016 to approximately RMB92.9 million for the year ended 31 December 2017. Our gross profit margin for the year ended 31 December 2017 was 70.5%, as compared to 69.6% for the year ended 31 December 2016.

Other income and gains

Our other income and gains decreased by approximately 70.0% from approximately RMB99.7 million for the year ended 31 December 2016 to approximately RMB29.9 million for the year ended 31 December 2017, primarily due to the recognition of gain on fair value change of contingent consideration of RMB75.6 million for the year ended 31 December 2016 whereas a loss on fair value change of contingent consideration of approximately RMB0.5 million was recognised under other expenses for the year ended 31 December 2017. The gain on fair value change of the contingent consideration for the year ended 31 December 2016 represented the gain on fair value change of the contingent consideration of the remaining balance of 59,000,000 consideration shares to Fine Point Development Limited ("Fine Point") regarding the acquisition of 100% equity interest in Jiaxi Global Limited ("Jiaxi Global") (which indirectly holds 25% of the registered capital of each of Xiamen Yidou Internet Technology Co., Ltd. ("Xiamen Yidou") and Xiamen Zhangxin Interactive Technology Co., Ltd. (the "PRC Companies")) which had been expected to be allotted and issued in 2017 and 2018 as disclosed in the Company's circular dated 27 July 2015 (the "Circular"). As Fine Point unconditionally and irrevocably waived the Fourth Tranche Consideration Shares (as defined in the Circular) as disclosed in the announcement of the Company dated 2 January 2017, there was no outstanding contingent consideration as at 31 December 2017 after the Third Tranche Consideration Shares (as defined in the Circular) were allotted and issued on 31 March 2017. The loss on fair value change of the contingent consideration recognised for the year ended 31 December 2017 represented the loss recognised for the increase in the fair value of financial liability related to the Third Tranche Consideration Shares issued on 31 March 2017 due to the increase in closing price of Shares as compared with the closing price as at 31 December 2016. The decrease in other income and gains was partially offset by the increase in government grants from approximately RMB8.2 million for the year ended 31 December 2016 to approximately RMB14.2 million for the year ended 31 December 2017.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 248.5% from approximately RMB11.5 million for the year ended 31 December 2016 to approximately RMB40.1 million for the year ended 31 December 2017. The increase was mainly attributable to the increase in channel fees and advertising costs from approximately RMB2.1 million and RMB10.7 million for the year ended 31 December 2016 to approximately RMB11.4 million and RMB26.8 million for the year ended 31 December 2017, respectively. The increase in channel fees was mainly due to the launch of Sprites Legend (靈妖記－神仙道外傳) on Apple Inc.'s App Store in September 2017 and for this game, we recognised revenue on a gross basis and recognised App Store channel fees in selling and distribution expenses. The increase in advertisement costs was due to the increase in the number of promotional activities relating to the launch of Sprites Legend (靈妖記－神仙道外傳) in the second half of 2017. The increase in selling and distribution expenses was also attributable to an increase in share-based compensation by approximately RMB1.9 million as a result of the forfeiture of share options in 2016, of which the cost had been recognised in the previous years, while there was no such forfeiture for the year ended 31 December 2017.

Administrative expenses

Our administrative expenses increased by approximately 5.5% from approximately RMB61.0 million for the year ended 31 December 2016 to approximately RMB64.3 million for the year ended 31 December 2017. The increase was primarily attributable to an increase in salaries, pension schemes contribution and welfare from approximately RMB32.2 million for the year ended 31 December 2016 to approximately RMB35.9 million for the year ended 31 December 2017, which was mainly driven by the increased number of management and administrative employees needed to support the newly setup Shenzhen office and to support the growth of our business in the long run.

Research and development costs

Our R&D costs decreased by approximately 48.0% from RMB180.1 million for the year ended 31 December 2016 to approximately RMB93.7 million for the year ended 31 December 2017. This decrease was primarily due to a one-off share-based payment of RMB66.2 million in 2016 while there was no such expense in 2017. The share-based payment was related to the transfer of 42.1 million Shares in 2016 from a major shareholder to a few key employees who were responsible for the Group's game development as a reward for their contribution to the Group. The reward cost was measured at the fair value of the shares on the date of the transfer and charged against the consolidated statement of profit or loss as employees' remuneration. The decrease was also due to the decrease in the deemed share-based payment from approximately RMB6.1 million for the year ended 31 December 2016 to approximately RMB2.4 million for the year ended 31 December 2017. The deemed share-based payment was related to the non-reciprocal capital contributions made by the Group to the non-wholly owned subsidiaries of which the non-controlling shareholders are employees. The amount of contributions made by the parent company to non-controlling shareholders was charged against the consolidated statement of profit or loss as employees' remuneration. The decrease was also due to a decrease in salaries, pension schemes contribution and welfare from approximately RMB79.2 million for the year ended 31 December 2016 to approximately RMB61.2 million for the year ended 31 December 2017 as a result of the decreased average number of R&D employees to keep the R&D teams competitive and the decreased bonus which was related to the profit of each R&D teams.

Finance costs

Finance costs consisted of interest expenses on the time loan taken out by the Company as financial leverage for life insurance policies. Our finance costs increased by approximately 37.4% from approximately RMB1.0 million for the year ended 31 December 2016 to approximately RMB1.3 million for the year ended 31 December 2017 primarily due to higher interest rates.

Other expenses

Our other expenses increased by approximately 141.2% from approximately RMB129.6 million for the year ended 31 December 2016 to approximately RMB312.7 million for the year ended 31 December 2017. The increase was primarily attributable to an increase in impairment loss of goodwill made of approximately RMB300.1 million which is related to goodwill recognised in 2013 pursuant to our acquisition of Kailuo Tianxia as disclosed in the Prospectus as compared to impairment loss of goodwill of RMB106.4 million made for the year ended 31 December 2016.

Reasons and details of circumstances that led to the impairment loss of goodwill

The impairment loss of goodwill made was due to the recoverable amount of the Carrot Fantasy CGU to which the goodwill related was less than the carrying amount of the goodwill.

Carrot Fantasy III (保衛蘿蔔3) was launched in June 2016. The delayed launch of the sequel was considered as an indication of impairment for the goodwill aforementioned.

Key assumptions adopted in assessing the impairment loss of goodwill

We performed the impairment assessment with assistance from an external valuer, and based on this assessment, the recoverable amount of the goodwill was determined by the value in use of the CGU, which was lower than the carrying amount of the goodwill as of 31 December 2017. As the Company is not able to have a reliable estimate of fair value less cost of disposal, the recoverable amount of the CGU to which the goodwill is allocated has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a seven-year period. The key assumptions for the value in use calculations are those regarding the discount rates, budgeted income during the period and growth rates. We estimate discount rates using pre-tax rates of 24% that reflect current market assessments of the time value of money and the risks specific to the CGU. The budgeted income includes estimated income from existing games and games in the pipeline, taking into account game popularity, income patterns in the game life cycle and the Group's strategy in operation. The operating margin and growth rate within the seven-year period have been based on management expectations. The growth rate used to extrapolate the cash flows of the relevant games beyond the relevant periods is 3%. There is no significant change in the valuation of the assumptions from those previously adopted except for the estimated income which was mainly due to the delay of the sequel. Details of the Group's impairment testing of goodwill is set out in Note 9 to the financial statements.

Income tax

We recorded a negative income tax expense of approximately RMB0.9 million for the year ended 31 December 2017 as compared to the income tax expense of approximately RMB7.6 million for the year ended 31 December 2016. The change was mainly attributable to the income tax refund received by two subsidiaries of the Company which were profitable and recognised income tax expense of approximately 5.7 million in total for the year ended 31 December 2016, but were certified to be software enterprises and thus exempt from income tax for the year ended 31 December 2016 in the second half of 2017. The change in income tax expenses was also due to the decrease in revenue and profits from the Company's subsidiaries which were not exempted from income tax for the year ended 31 December 2017.

Loss for the year

As a result of the above, the loss for the year increased by 141.6% from approximately RMB160.9 million for the year ended 31 December 2016 to approximately RMB388.8 million for the year ended 31 December 2017. And the loss attributable to owners of the parent increased by 150.0% from approximately RMB151.0 million for the year ended 31 December 2016 to approximately RMB377.8 million for the year ended 31 December 2017.

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

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

We define adjusted net loss or profit attributable to owners of the parent as net loss attributable to owners of the parent excluding share-based compensation, amortisation of intangible assets recognised for acquisitions, impairment loss of goodwill and intangible asset recognised for Carrot Fantasy CGU and loss/gain on fair value change of contingent consideration recognised for acquisitions. The term of adjusted net loss or profit attributable to owners of the parent is not defined under IFRSs. The use of adjusted net loss or profit attributable to owners of the parent has material limitations as an analytical tool as it does not include all items that would impact our net loss attributable to owners of parent for the accounting period.

	For the year ended 31 December		
	2017	2016	**Change %**
	(RMB'000)	*(RMB'000)*	
Loss for the year attributable to owners of the parent	**(377,455)**	(151,002)	150.0
Add:			
Share-based compensation	**28,133**	95,595	(70.6)
Amortisation of intangible assets recognised for acquisitions	**3,599**	20,485	(82.4)
Impairment loss of goodwill and intangible asset recognised for Carrot Fantasy CGU	**300,076**	115,980	158.7
Loss/(gain) on fair value change of contingent consideration recognised for acquisitions	**495**	(75,584)	(100.7)
Total	**(45,152)**	5,474	(924.8)

Financial Position

As at 31 December 2017, total equity of the Group amounted to approximately RMB635.7 million, as compared to RMB1,025.8 million as of 31 December 2016. The decrease was mainly due to an impairment loss of goodwill recognised for Carrot Fantasy CGU of approximately RMB300.1 million for the year ended 31 December 2017. The decrease was also due to the equity impact of approximately RMB47.2 million regarding the repurchase of Shares on the Stock Exchange and the adjusted loss for the year attributable to owners of the parent of approximately RMB45.2 million recognised for the year ended 31 December 2017.

The Group's net current assets amounted to approximately RMB107.4 million as at 31 December 2017 as compared to approximately RMB155.2 million as at 31 December 2016. This decrease was primarily due to the payment of approximately RMB47.2 million in repurchase of Shares on the Stock Exchange.

Liquidity and Capital Resources

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

	2017 *(RMB'000)*	2016 *(RMB'000)*	**Change %**
Net cash flow (used in)/from operating activities	**(75,819)**	17,791	(526.2)
Net cash flow from/(used in) investing activities	**38,280**	(186,237)	(120.6)
Net cash flow used in financing activities	**(40,606)**	(61,879)	(34.4)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(78,145)**	(230,325)	(66.1)
Cash and cash equivalents at the beginning of year	**237,028**	463,897	(48.9)
Effect of foreign exchange rate changes, net	**(3,486)**	3,456	(200.9)
Cash and cash equivalents at the end of year	**155,397**	237,028	(34.4)

Our total cash and cash equivalent amounted to approximately RMB155.4 million as at 31 December 2017, as compared to approximately RMB237.0 million as at 31 December 2016. The decrease was primarily due to the payment of approximately RMB47.2 million for the repurchase of Shares on the Stock Exchange during 2017 and the refund of the prepaid licensing fee and royalty payment of approximately RMB23.6 million to Beijing Star World Technology Company Limited (北京世界星輝科技有限責任公司) ("Star World") in relation to the termination of a license agreement with Star World as disclosed in the announcement of the Company dated 24 March 2017.

As at 31 December 2017, approximately RMB32.8 million of our financial resources (31 December 2016: RMB79.6 million) were held in deposits denominated in non-RMB currencies. We currently do not hedge transactions undertaken in foreign currencies but manage our foreign exchange exposure through limiting our foreign currency exposure and constant monitoring. The Group has adopted a prudent cash and financial management policy. In order to better control costs and minimise costs of funds, the Group's treasury activities are centralised and cash is generally deposited at banks and denominated mostly in Renminbi, Hong Kong dollars and United States Dollars.

As at 31 December 2017, we had time loan of approximately HK$64.0 million (31 December 2016: US$8.0 million) with an interest rate of 2.436% which is secured by certain life insurance policies as detailed below, which was used by the Company as financial leverage for the life insurance policies.

Significant Available-for-sale Investments Held

As at 31 December 2017 we had available-for-sale investments of approximately RMB370.0 million (31 December 2016: RMB406.3 million) and had no short-term investments (31 December 2016: Nil). There were no current available-for-sale investments as at 31 December 2017 (31 December 2016: RMB7.1 million) and the non-current available-for-sale investments represented the straight bonds, convertible bond and convertible preferred shares issued by banks or reputable companies, with Standard & Poor ("S&P") rating above BB- and coupon rates ranging from 4.25% to 6.5% per annum which were invested in by the Company, the investment in life insurance policies by the Company, and equity interests held by the Group in nine unlisted companies and one company listed on the China New Third Board. In August 2015, the Group entered into life insurance policies with an insurance company to insure certain members of the key management of the Group. The Company can terminate the policy at any time and receive a refund based on the surrender value of the contracts at the date of withdrawal, which is determined by the insurance premium of each insurance policy plus the accumulated interest earned and minus the insurance costs ("Surrender Value"). In addition, if the withdrawal is made between the first and tenth policy years, there is a special amount of surrender charge by the insurance company. The insurance company will declare a guaranteed interest of 3.9% per annum plus a premium determined by the insurance company on the outstanding Surrender Value of the contract for the first three years. Commencing from the fourth year, the guaranteed interest will be reduced to 2% per annum.

The principal of the available-for-sale investments as at 31 December 2017 are not protected. The fair values of available-for-sale investments in straight bonds, convertible bonds and convertible preferred shares have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market inputs. The fair values of the life insurance policies represent the cash value of such insurance policies which are detailed in the above paragraph.

Details of the Group's available-for-sale investments are set out in the section headed "Performance and Future Prospect of Significant Available-for-sale Investments Held".

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

Performance and Future Prospect of Significant Available-for-sale Investments Held

Details of the Group's available-for-sale investments as at 31 December 2017 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 2017 *(RMB'000)*	Fair value as at 31 December 2016 *(RMB'000)*	Fair value as at 31 December 2017 *(RMB'000)*
China Merchants Bank – Dian Jin Chi (點金池)	*1*	11	64,000	–
Others	*2*	290	7,139	–

Notes:

1. The structured financial product Dian Jin Chi (點金池) as at 31 December 2016 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 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 as at 31 December 2016 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 2017 (RMB'000)	Changes in fair value (RMB'000)	Fair value at 31 December 2017 (RMB'000)	Percentage of total available-for-sale investments at 31 December 2017	Percentage of the total assets of the Group as at 31 December 2017
Huarong Finance II Co., Ltd. ("Huarong Finance II")	*1*	933	152	23,508	6.4%	3.1%
Zhongrong International Bond 2015 Limited ("ZIB 2015")	*2*	983	475	20,107	5.4%	2.6%
Huarong Finance 2017 Co., Ltd. ("Huarong Finance 2017")	*3*	469	(901)	19,647	5.3%	2.6%
Bank of East Asia ("BEA")	*4*	415	(671)	26,156	7.1%	3.4%
Sparkle Assets Limited ("SAL")	*5*	1,477	–	–	–	–

Notes:

1. Please refer to note 11(1) to the financial statements for the details of the bond issued by Huarong Finance II.

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

   Pursuant to the annual results announcement of Huarong Group for the year ended 31 December 2017, Huarong Group recorded the total income of approximately RMB128,070.6 million and profit for the year of approximately RMB26,587.7 million. In 2017, Huarong Group unswervingly enhanced the core business of distressed asset management, persisted in the synergic development of "innovation + prudence" and various sectors of "one body, two wings", achieved steady growth of operating 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 11(1) to the financial statements for the details of the bond issued by ZIB 2015.

ZIB 2015, the issuer of the bond, is a wholly-owned subsidiary of the bond's guarantor, Zhongrong International Holdings Limited (BVI). The bond's guarantor is, in turn, a wholly-owned 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 a leading PRC-based trust company, with a presence in over 20 core cities in the PRC including Beijing, Shanghai, Shenzhen, Chengdu and also in Hong Kong. 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. Zhongrong Group is privately held, with Jingwei Textile Machinery Co., Ltd being the company's largest shareholder at the time of writing, with a 37.47% stake. Jingwei Textile is listed on the Shenzhen Stock Exchanges (Stock Code: 666). According to its announcement on 28 November 2017, Jingwei Textile and partners plans to invest RMB2 billion in Zhongrong Group to enrich registered capital, expand asset scale, meet its net capital requirements, enhance its ability to resist risks, cooperate with strategic transformation, form new growth points of benefits, and help to expand its company's core competitiveness of financial businesses.

Pursuant to Jingwei Textile's 2017 annual report, Zhongrong Group recorded total income of approximately RMB5,972.4 million and profit for the year of approximately RMB2,805.4 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.

3. Please refer to note 11(1) to the financial statements for the details of the bond issued by Huarong Finance 2017.

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

4. Please refer to note 11(1) to the financial statements for the details of the bond issed by BEA.

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

Pursuant to the annual results announcement of BEA for the year ended 31 December 2017, BEA recorded the total operating income of approximately HKD15,953 million and profit for the year of approximately HKD10,515 million. For 2018, BEA will further enhance asset quality, expand sources of fee income and carry out the third year of its cost-reduction program.

The Group believes that with growing opportunities resulting from outbound investments by businesses in Mainland China, Hong Kong, and other markets, BEA will proactively explore and capture emerging business opportunities and achieve new heights and the Group is therefore optimistic about the future prospect of BEA.

5. In April and July 2015, the Group invested in a bond issued by Sparkle Assets Limited with a nominal amount of US$9,200,000 at a consideration of US$9,679,000 (equivalent to approximately RMB59.3 million). The bond has a coupon interest rate of 6.875% per annum with a maturity period of 7 years. On 30 May 2017, the Group sold the straight bond with a nominal amount of US$9,200,000 at a consideration of US$9,727,000 (equivalent to approximately RMB66.8 million). Please refer to note 11(1) to the financial statements and the supplemental announcement in relation to the annual report of the company for the year ended 31 December 2016 for details of the bond.

(C) Convertible Bond

Name of the convertible bonds	*Note*	**Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2017** *(RMB'000)*	**Changes in fair value** *(RMB'000)*	**Fair value at 31 December 2017** *(RMB'000)*	**Percentage of total available-for-sale investments at 31 December 2017**	**Percentage of the total assets of the Group as at 31 December 2017**
Standard Chartered PLC	*1*	1,318	1,871	19,948	5.4%	2.6%

Notes:

1. Please refer to note 11(2) to the financial statements 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 the annual results announcement of Standard Chartered Group for the year ended 31 December 2017, Standard Chartered Group recorded the operating income of approximately US$14,425 million and profit for the year of approximately US$1,268 million. Standard Chartered Group has made encouraging progress in transforming the Group, the path ahead is clear and Standard Chartered Group are now well positioned to drive sustainable profit growth across the markets. Standard Chartered Group remained focused on improving its service to its clients, generating strong returns for its investors, and contributing even more to the communities in which it operate. This will enable Standard Chartered Group to realise its full potential.

The Group believes that Standard Chartered Group will improve its financial performance on the path to delivering sustainable better value and is therefore optimistic about the future prospect of Standard Chartered Group.

(D) Convertible Preferred Shares

Name of the convertible preferred Shares	*Note*	**Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2017** *(RMB'000)*	**Changes in fair value)** *(RMB'000)*	**Fair value at 31 December 2017** *(RMB'000)*	**Percentage of total available-for-sale investments at 31 December 2017**	**Percentage of the total assets of the Group as at 31 December 2017**
Industrial and Commercial Bank of China Limited ("ICBC")	*1*	2,028	275	34,249	9.3%	4.5%
China Cinda Asset Management Co., Ltd. ("Cinda")	2	451	105	9,612	2.6%	1.3%

Notes:

1. Pease refer to note 11(3) to the financial statements for the details of the convertible preferred shares issued by ICBC.

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

   Pursuant to ICBC Group's third quarterly report for the nine months ended 30 September 2017, ICBC Group recorded operating income of approximately RMB506,265 million and net profit of approximately RMB229,086 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 11(3) to the financial statements 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 of Hong Kong Limited since 12 December 2013 (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 interim report for the six months ended 30 June 2017, Cinda Group recorded total income of approximately RMB60,610.3 million and profit for the period of approximately RMB8,562.4 million. Cinda Group will further reinforce the edges of its distressed asset business, optimize its business structure with a focus on the main business, highlight the development of specialization and characteristics of its subsidiaries and the development of differentiation of its branches.

The Group is optimistic about the performance of Cinda Group 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 2017** *(RMB'000)*	**Changes in fair value** *(RMB'000)*	**Fair value at 31 December 2017** *(RMB'000)*	**Percentage of total available-for-sale investments at 31 December 2017**	**Percentage of the total assets of the Group as at 31 December 2017**
Investment in life insurance policies	*1*	–	2,506	87,863	23.7%	11.5%

Notes:

1. Please refer to note 11(4) to the financial statements for the details of the investments in life insurance policies.

Pursuant to the annual performance review of the life insurance policies, 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 2017	Dividend income recognised in consolidated statement of profit or loss for the year ended 31 December 2017 *(RMB'000)*	Carrying amount at 31 December 2017 *(RMB'000)*	Percentage of total available-for-sale investments at 31 December 2017	Percentage of the total assets of the Group as at 31 December 2017
APOLLO CAPITAL L.P. ("APOLLO")	*1*	18.5%	–	33,541	9.1%	4.4%
Xiamen eName Technology Co., Ltd.	*2*	2.0%	600	20,005	5.4%	2.6%
Ewan	*3*	4.54%	–	50,000	13.5%	6.6%
Others	*4*	–	–	25,395	6.9%	3.3%

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 2017, APOLLO recorded revenue of approximately US$244,106 and net profit after tax of approximately US$134,429. APOLLO is holding its investments as at 31 December 2017 and did not dispose any of its investments for the year ended 31 December 2017 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 2017.

   The Group believes that APOLLO has sufficient capital and managed by experienced management team and the sectors it invest 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 interim report for the six months ended 30 June 2017, eName recorded revenue of approximately RMB74.5 million and net profit after tax of approximately RMB10.6 million. Pursuant to the eName's preliminary unaudited annual results for the year ended 31 December 2017, eName is expected to record a profit attributable to owners of the parent ranged between RMB19 million to RMB22 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 received the cash dividend of approximately RMB0.6 million in May 2017.

On 20 September 2017, eName declared a stock dividend of two shares of common stock for every ten issued and outstanding shares of common stock held by shareholders as of 26 September 2017. The stock dividend has increased the number of issued and outstanding shares of common stock of eName from approximately 27.2 million to approximately 32.6 million.

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

3. Ewan, one of the non-wholly owned subsidiaries of X.D. Network Inc. ("XD", an online game publishing and developing company and its shares are listed on China New Third Board (Stock Code: 833897)), is primarily engaged in developing and operating an emerging mobile game distribution platform, TapTap, which generates revenue from advertisement.

   Pursuant to XD's interim report for the six months ended 30 June 2017, Ewan recorded revenue of approximately RMB15.6 million and net loss after tax of approximately RMB27.3 million for the six months ended 30 June 2017. Ewan was still being in the early stages of its business development. With its rapidly growing user base, TapTap is expected to gain greater market share in mobile game distribution going forward.

   The Group believes that Ewan is a superior mobile game platform with a great number of high quality games and developers as well as a remarkable number of valuable gamers and it has become one of the major mobile game platforms in China has sufficient capital and managed by experienced management team and the sectors it invest in have positive future and its future business prospect is positive and growing. The Group is therefore optimistic about the future prospects of Ewan.

4. Others comprised seven (7) unlisted limited liability companies and none of these investments accounted for more than 1.3% of the total assets of the Group as at 31 December 2017.

There was no impairment made for any available-for-sale investment for the year ended 31 December 2017.

Gearing ratio

On the basis of total liabilities divided by total assets, the Group's gearing ratio was 16.6% as at 31 December 2017 and 14.5% as at 31 December 2016.

Capital expenditures

The following table sets forth our capital expenditures for the year ended 31 December 2017 and 2016:

	For the year ended 31 December		
	2017	2016	**Change %**
	(RMB'000)	*(RMB'000)*	
Land use rights	**–**	110,210	(100.0)
Property, plant and equipment	**9,324**	3,037	207.0
Total	**9,324**	113,247	(91.8)

Our capital expenditures comprised land use rights, property, plant and equipment, such as company vehicles for employees' use and leasehold improvement, and construction in progress. The total capital expenditures for the year ended 31 December 2017 were approximately RMB9.3 million as compared to RMB113.2 million for the previous year, decreasing by approximately RMB103.9 million which was primarily due to the payment of bidding price amounting to RMB107.0 million for the acquisition of a land use right as disclosed in the announcement of the Company dated 21 July 2016 and payment of deed tax amounting to approximately RMB3.2 million related to the land use rights during the year ended 31 December 2016 while there was no such payment in 2017. The decrease was partially offset by the increase in property, plant and equipment from approximately RMB3.0 million for the year ended 31 December 2016 to approximately RMB9.3 million for the year ended 31 December 2017 as a result of increase in purchase of company vehicles, office equipment and the leasehold improvements for our newly setup Shenzhen office and development team and the increase in construction costs from approximately RMB1.1 million for the year ended 31 December 2016 to approximately RMB3.6 million for the year ended 31 December 2017 for the preliminary phase of the construction of our R&D center and headquarters and capitalisation of amortisation of prepaid land lease payments.

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

On 11 May 2017, the Company, through Xiamen Youli, one of its indirect wholly-owned subsidiaries, entered into an investment agreement (the "Investment Agreement") together with XD and Xiamen G-bits, to invest in Ewan. Pursuant to the Investment Agreement, each of Xiamen Youli, XD and Xiamen G-bits injected RMB50.0 million in cash into Ewan, as a result of which Xiamen Youli, XD and Xiamen G-bits hold 4.54%, 52.09% and 4.54%, respectively of the equity interests in Ewan as enlarged by the capital contribution made pursuant to the Investment Agreement. XD is the controlling shareholder of Ewan before and after the Investment Agreement and Xiamen G-bits is a new investor to Ewan. The investment will not only strengthen the Group's game distribution network, but also offer a valuable opportunity for decent investment return in the future.

Save for those disclosed in this announcement, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2017. Apart from those disclosed in this announcement, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this announcement. However, the Group will continue to identify new opportunities for business development.

Pledge of Assets

As at 31 December 2017, the bank loan of the Group amounting to HK$64.0 million which was used as a lever of our investment in life insurance policies was secured by the life insurance policies with a fair value amounting to US$13.4 million.

Contingent liabilities and guarantees

As at 31 December 2017, we did not have any unrecorded significant contingent liabilities, guarantees or any litigation with claims made against us.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, we had 507 full-time employees, the majority of whom were based in Xiamen, the PRC. The following table sets forth the number of our employees segregated by their functions as at 31 December 2017:

	Number of Employees	% of Total
Development	303	59.8
Operations	127	25.0
Administration	72	14.2
Sales and marketing	5	1.0
Total	507	100.0

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

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

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

Foreign currency risk

In the year ended 31 December 2017, the Group did not encounter significant foreign currency risk from its operations and did not hedge against any fluctuation in foreign currency.

Interest rate risk

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

Use of Net Proceeds from Listing

The net proceeds from the Global Offering were approximately HK$585.0 million, after deducting the underwriting fees and commission, and related total expenses paid and payable by us in connection with the Listing, we have, and will continue to utilise the net proceeds from the Global Offering for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Corporate Social Responsibility

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

Our Group has adopted the 3Rs strategy in our waste management: Reduce, Reuse and Recycle, such as installing efficient water flushing system in the restrooms and perform regular check to prevent leakage.

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

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

Compliance with the Relevant Laws and Regulations

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

FINANCIAL INFORMATION

Consolidated statement of profit or loss and comprehensive income

	Notes	**2017** *RMB'000*	2016 *RMB'000*
REVENUE	*4*	**131,697**	188,133
Cost of sales		**(38,843)**	(57,184)
Gross profit		**92,854**	130,949
Other income and gains	*4*	**29,865**	99,692
Selling and distribution expenses		**(40,099)**	(11,507)
Administrative expenses		**(64,327)**	(60,951)
Research and development costs		**(93,701)**	(180,085)
Finance costs		**(1,333)**	(970)
Other expenses		**(312,676)**	(129,626)
Share of losses of associates		**(218)**	(771)
LOSS BEFORE TAX	*5*	**(389,635)**	(153,269)
Income tax credit/(expense)	*6*	**855**	(7,646)
LOSS FOR THE YEAR		**(388,780)**	(160,915)
Attributable to:			
Owners of the parent		**(377,455)**	(151,002)
Non-controlling interests		**(11,325)**	(9,913)
		(388,780)	(160,915)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
– Basic and diluted		**RMB(0.24)**	RMB(0.10)

	Note	2017 RMB'000	2016 RMB'000
LOSS FOR THE YEAR		**(388,780)**	(160,915)
OTHER COMPREHENSIVE (LOSS)/ INCOME			
Other comprehensive (loss)/income may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**11,372**	4,606
Reclassification adjustments for gains included in the consolidated statement of profit or loss	*4*	**(3,233)**	(1,105)
Exchange differences on translation of financial statements		**(14,985)**	20,718
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(6,846)**	24,219
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR, NET OF TAX		**(6,846)**	24,219
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(395,626)**	(136,696)
Attributable to:			
Owners of the parent		**(384,431)**	(126,670)
Non-controlling interests		**(11,195)**	(10,026)
		(395,626)	(136,696)

Consolidated statement of financial position

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**14,097**	13,376
Prepaid land lease payments		**103,552**	106,307
Goodwill	*9*	**24,047**	314,253
Other intangible assets		**1,801**	5,631
Investments in associates		**9,229**	17,668
Prepayments, deposits and other receivables		**9,236**	22,412
Available-for-sale investments	*11*	**370,031**	399,116
Deferred tax assets		**1,284**	2,387
Total non-current assets		**533,277**	881,150
CURRENT ASSETS			
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	*10*	**25,501**	54,268
Prepayments, deposits and other receivables		**45,642**	19,886
Other current assets		**2,432**	–
Restricted cash		**–**	680
Available-for-sale investment	*11*	**–**	7,139
Cash and cash equivalents		**155,397**	237,028
Total current assets		**228,972**	319,001
CURRENT LIABILITIES			
Other payables and accruals		**55,454**	90,353
Interest-bearing bank borrowing		**53,504**	55,655
Tax payable		**1,825**	6,228
Deferred revenue		**10,838**	11,594
Total current liabilities		**121,621**	163,830
NET CURRENT ASSETS		**107,351**	155,171
TOTAL ASSETS LESS CURRENT LIABILITIES		**640,628**	1,036,321

	2017	2016
	RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**640,628**	1,036,321
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**–**	450
Deferred revenue	**4,940**	10,097
Total non-current liabilities	**4,940**	10,547
Net assets	**635,688**	1,025,774
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1**	1
Share premium	**490,934**	504,719
Treasury shares	**(2,906)**	(8,394)
Reserves	**150,023**	530,959
	638,052	1,027,285
Non-controlling interests	**(2,364)**	(1,511)
Total equity	**635,688**	1,025,774

1. CORPORATE AND GROUP INFORMATION

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

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Date of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Feiyu Technology Hong Kong Ltd.	Hong Kong	HK$1	25 March 2014	100	–	Investment holding
Xiamen Guanghuan Information Technology Co., Ltd. ("Xiamen Guanghuan")	PRC/Mainland China	RMB10,000,000	12 January 2009	–	100	Game development and distribution
Xiamen Youli Information Technology Co., Ltd. ("Xiamen Youli")	PRC/Mainland China	RMB100,000,000	19 September 2011	–	100	Game development and distribution
Xiamen Yidou Information Technology Co., Ltd. ("Xiamen Yidou")	PRC/Mainland China	RMB5,000,000	11 June 2012	–	100	Game development and distribution
Beijing Kailuo Tianxia Technology Co., Ltd. ("Kailuo Tianxia")	PRC/Mainland China	RMB10,000,000	3 May 2012	–	100	Game development and distribution
Xiamen Feiyou Information Technology Co., Ltd.*	PRC/Mainland China	US$5,000,000	24 June 2014	–	100	Investment holding
Xiamen Zhangxin Interactive Technology Co., Ltd. ("Xiamen Zhangxin")	PRC/Mainland China	RMB100,000	27 October 2014	–	100	Game development and distribution
Xiamen Guangyu Investment Management Co., Ltd. ("Xiamen Guangyu")	PRC/Mainland China	RMB100,000	10 November 2014	–	100	Game development and distribution
Xiamen Feixin Internet Technology Co., Ltd. ("Xiamen Feixin")	PRC/Mainland China	RMB1,000,000	13 November 2014	–	100	Game development and distribution
Xiamen Veewo Games Co., Ltd. ("Xiamen Veewo")	PRC/Mainland China	RMB1,350,000	29 February 2016	–	51	Game development and distribution
Veewo Limited	Hong Kong	HKD10,000	12 January 2012	–	51	Game development and distribution

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in the financial statements upon the adoption of amendments to IAS 7, which require an entity 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.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to IFRS 1 and IAS 28*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that, due to the good historical collectability of its accounts receivable and receivables due from third-party game distribution platforms and payment channels and other receivables, the provision for impairment will be nil upon the initial adoption of the standard.

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group has assessed the impact of this standard and expects that the standard will not have a significant impact, when applied, on the consolidated financial statements of the Group, except for additional disclosures to included.

IFRS 16, issued in May 2016, replaces IAS 17 Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 on from 1 January 2019. The Group and is currently assessing the impact of IFRS 16 upon adoption. and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 32 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB12,674,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

So far, the Group considered that the other issued but not yet effective IFRSs may result in changes in accounting policies and the Group is in the process of assessing the impact of these new and revised standards on the Group's results and financial position.

3. OPERATING SEGMENT INFORMATION

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

Information about geographical areas

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

Information about a major customer

No revenue from the Company's sales to a single customer amounted to 10% or more of the Group's revenue for the year ended 31 December 2017 (2016: RMB34,084,000).

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents net invoiced value of goods sold, after allowances for returns and trade discounts; the services income from rendered after allowances for chargebacks, and the royalties derived from licensing agreements.

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

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Online web and mobile games	**106,761**	154,610
Single-player games	**6,081**	5,876
Game operation	**112,842**	160,486
– Gross basis	**36,766**	5,173
– Net basis	**76,076**	155,313
Online game distribution	**2,916**	1,886
Licensing income	**9,362**	14,503
Advertising revenue	**5,980**	11,064
Sale of goods	**336**	–
Technical service income	**261**	194
	131,697	188,133
Other income		
Government grants	**14,151**	8,220
Interest income	**11,230**	14,424
	25,381	22,644
Gains		
Fair value gains, net:		
Available-for-sale investments (transfer from equity on disposal)	**3,233**	1,105
Dividend income from available-for-sale investments	**600**	–
Gain on fair value change of contingent consideration	**–**	75,584
Gain on disposal of items of property, plant and equipment	**447**	226
Others	**204**	133
	4,484	77,048
	29,865	99,692

5. LOSS BEFORE TAX

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

	Note	2017 RMB'000	2016 RMB'000
Channel costs		**11,380**	2,071
Rental fee (including servers)		**10,926**	12,065
Depreciation		**6,106**	7,828
Amortisation of intangible assets		**3,830**	21,303
Recognition of prepaid land lease payments		**2,525**	1,148
Advertising expenses		**26,825**	10,667
Auditor's remuneration		**2,350**	2,650
Impairment of goodwill*	9	**300,477**	107,754
Impairment of other intangible asset*		**–**	9,583
Impairment of an investment in an associate*		**–**	3,512
Impairment of other receivable*		**3,000**	–
Impairment of property, plant and equipment*		**995**	–
Loss on disposal of a subsidiary*		**5,808**	–
Fair value loss on remeasurement of existing interests upon business combination*		**665**	–
Loss/(gain) on fair value change of contingent considerations*		**495**	(75,584)
Employee benefit expenses (excluding directors' and chief executive's remuneration)			
Salaries and wages		**90,049**	103,513
Pension scheme contributions		**13,408**	14,830
Share-based payment expenses		**25,685**	89,463
Other compensation expenses		**2,448**	6,132
		131,590	213,938
Foreign exchange losses		**656**	6,956
Gain on disposal of items of property, plant and equipment, net		**(211)**	(32)

* The impairment of goodwill, the impairment of other intangible asset, the impairment of an investment in an associate, the impairment of other receivable, the impairment of property, plant and equipment, the fair value loss on remeasurement of existing interests upon business combination, the loss on fair value change of contingent considerations, the foreign exchange losses and the loss on disposal of a subsidiary are included in "Other expenses" in the consolidated statement of profit or loss.

6. INCOME TAX

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

Under the relevant income tax law, the PRC subsidiaries are subject to income tax at a statutory rate of 25% for the year on their respective taxable income, except for Xiamen Youli, Kailuo Tianxia, Xiamen Yidou, Xiamen Guangyu and Xiamen Feixin which were certified as Software Enterprises and are exempted from income tax for two years starting from the first year in which they generate taxable profit, followed by a 50% reduction for the next three years. 2013, 2013, 2014, 2015 and 2016 are the first profitable years for Xiamen Youli, Kailuo Tianxia, Xiamen Yidou, Xiamen Guangyu and Xiamen Feixin, respectively.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB416,130,000 at 31 December 2017 (2016: RMB412,914,000).

	2017	2016
	RMB'000	*RMB'000*
Current tax (credit)/expense	**(1,508)**	10,547
Deferred tax	**653**	(2,901)
Total tax (credit)/expense for the year	**(855)**	7,646

A reconciliation of the tax credit or expense applicable to loss before tax using the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax credit or expense at the effective tax rate is as follows:

	2017	2016
	RMB'000	*RMB'000*
Loss before tax	**(389,635)**	(153,269)
Tax at the applicable tax rate	**(99,792)**	(55,342)
Lower tax rates enacted by local authorities	**(10,543)**	(8,800)
Expenses not deductible for tax	**86,455**	52,327
Other tax credit	**(5,831)**	(5,922)
Income not subject to tax	**(150)**	–
Tax losses utilised from previous years	**(36)**	(1,731)
Deferred tax assets not recognised	**(29,042)**	27,114
Tax (credit)/expense	**(855)**	7,646

7. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Proposed and paid 2015 final dividend – HK3 cents per ordinary share	**–**	39,737
	–	39,737

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,548,600,256 (2016: 1,560,502,622) in issue during the year, as adjusted to reflect the share issuance, repurchase and treasury shares on hand during the year.

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2017 and 2016 in respect of a dilution as the impact of the share option outstanding had an anti-dilution effect in the basic loss per share amounts presented.

9. GOODWILL

	RMB'000
Cost at 1 January 2016	409,557
Acquisition of a subsidiary	12,450
Impairment during the year	(107,754)
At 31 December 2016	314,253
At 31 December 2016	
Cost	422,007
Accumulated impairment	(107,754)
Net carrying amount	314,253
Cost at 1 January 2017	314,253
Acquisition of a subsidiary	11,210
Disposal of a subsidiary	(939)
Impairment during the year	(300,477)
At 31 December 2017	24,047
At 31 December 2017	
Cost	432,278
Accumulated impairment	(408,231)
Net carrying amount	24,047

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Carrot Fantasy cash-generating unit
- Super Phantom Cat cash-generating unit
- Jiong Xi You cash-generating unit
- Sanguo Zhiren cash-generating unit
- Tianxia Jiayou cash-generating unit
- Shenzhen Zhangxin cash-generating unit

The recoverable amount of the above cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year to seven-year period approved by board of directors. The discount rate applied to the cash flow projections is 24% (2016: 24%). The growth rate used to extrapolate the cash flows of the relevant games beyond the five-year period is 3%. The carrying amount of goodwill allocated to each cash-generating unit is as follows:

	2017	2016
	RMB'000	*RMB'000*
Super Phantom Cat cash-generating unit	**12,450**	12,450
Shenzhen Zhangxin cash-generating unit	**11,210**	–
Sanguo Zhiren cash-generating unit	**387**	387
Carrot Fantasy cash-generating unit	**–**	300,076
Tianxia Jiayou cash-generating unit	**–**	939
Jiong Xi You cash-generating unit	**–**	401
Carrying amount of goodwill	**24,047**	314,253

Management recognised an impairment of goodwill of Carrot Fantasy cash-generating unit and Jiong Xi You cash-generating unit due to the underperformance in revenue generating activities of Carrot Fantasy series and Jiong Xi You. The recoverable amount of these CGUs were its value in use. The recoverable amount was nil for both CGUs.

Assumptions were used in the value in use calculation of the cash-generating units for the years ended 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted income – The budgeted income includes estimated income from existing games and games in the pipeline, taking into account game popularity, income patterns in game life cycle and the Group's strategy in operation. The Company believes this budgeted income is justified given the strong game development capability and experience of games, the cooperation with major third-party distribution platforms and the successful record of developing its games.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

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

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

An aging analysis of the receivables as at the end of the year, based on the invoice date, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**25,501**	54,268

The aging analysis of the receivables that are not considered to be impaired is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**25,501**	54,268

All of the receivables that were neither past due nor impaired mainly relate to a large number of diversified customers for whom there was no recent history of default.

11. AVAILABLE-FOR-SALE INVESTMENTS

		2017	2016
	Notes	***RMB'000***	*RMB'000*
Structured financial product		**–**	7,139
Total current available-for-sale investment		**–**	7,139
Structured financial products		**–**	64,000
Straight bond	*(1)*	**89,418**	112,007
Convertible bonds	*(2)*	**19,948**	19,257
Convertible preferred shares	*(3)*	**43,861**	46,342
Investment in life insurance policies	*(4)*	**87,863**	90,708
Unlisted equity investment, at cost	*(5)*	**128,941**	66,802
Total non-current available-for-sale investments		**370,031**	399,116

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

In April and July 2015, the Group invested in a bond issued by Sparkle Assets Limited with a nominal amount of US$9,200,000 at a consideration of US$9,679,000 (equivalent to approximately RMB59.3 million). The bond has a coupon interest rate of 6.875% per annum with a maturity period of 7 years. On 30 May 2017, the Group sold the straight bond with a nominal amount of US$9,200,000 at a consideration of US$9,727,000 (equivalent to approximately RMB66.8 million).

On 9 September 2016, the Group invested in a bond issued by Zhongrong International Bond 2015 Limited with a nominal amount of US$3,000,000 at a consideration of US$3,062,000 (equivalent to approximately RMB20.4 million). The bond has a coupon interest rate of 6% per annum with a maturity period of 3 years.

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

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

Available-for-sale investments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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

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

Available-for-sale investments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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

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

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

Available-for-sale investments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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

As at 31 December 2017, the insurance premium was pledged to a bank to secure a short term advance facility granted to the Group.

(5) The investments represented the equity interests held by the Group in several unlisted companies at a total investment cost of RMB128,941,000 (2016: RMB66,802,000).

As at 31 December 2017, the above unlisted equity investments were stated at cost less impairment. The directors are of the opinion that fair value cannot be measured reliably because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The Group does not intend to dispose of them in the near future.

During the year, the net gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB11,372,000 (2016: net gain of RMB4,606,000). In the meantime, profit of RMB3,233,000 (2016: RMB1,105,000) was reclassified from other comprehensive income to the statement of profit or loss for the year.

12. EQUITY-SETTLED SHARE-BASED PAYMENT

(1) Share option schemes

The Company approved and adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a post-IPO share option scheme (the "Post-IPO Share Option Scheme", together as the "Schemes") pursuant to shareholders' written resolutions and directors' written resolution passed on 17 November 2014. The purpose of the Schemes is to provide rewards to eligible participants for their service to the Group. Eligible participants include any full-time employees, consultants, executives or officers of the Company and any of its subsidiaries who in the sole opinion of the Board have contributed or will contribute to the Group.

The total number of ordinary shares subject to the Pre-IPO Share Option Scheme is 105,570,000. On 17 November 2014, under the Pre-IPO Share Option Scheme, share options were granted to 2 members of senior management and 120 other employees to subscribe for 105,570,000 shares at an exercise price of HK$0.55 per share. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 31 December 2015, 2016, 2017 and 2018, respectively. Each option granted if not exercised subsequently will expire on 5 December 2019.

The maximum number of shares to be issued upon exercise of all share options to be granted under the Post-IPO Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 150,000,000 shares and 30% of the shares of the Company in issue from time to time. On 27 March 2017, under the Post-IPO Share Option Scheme, share options were granted to employees to subscribe for 10,160,000 shares at an exercise price of HK$1.256 per share. 7,160,000 share options granted will be vested equally in four tranches as to 25% of the number of shares on 31 December 2017, 2018, 2019 and 2020, respectively. 3,000,000 share options granted will be vested in three tranches as to 50%, 25% and 25% of the number of shares on 30 June 2017, 2018 and 2019, respectively. Each option granted if not exercised subsequently will expire on 26 March 2027. On 15 May 2017, under the Post-IPO Share Option Scheme, share option were granted to employees to subscribe for 5,000,000 shares at an exercise price of HK$1.1 per share. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 15 May 2018, 2019, 2020 and 2021, respectively. Each option granted if not exercised subsequently will expire on 14 May 2027. On 13 November 2017, under the Post-IPO Share Option Scheme, share option were granted to one member of senior management to subscribe for 15,000,000 shares at an exercise price of HK$1.026 per share. All share options granted will be vested equally in three tranches as to 33% of the aggregate number of shares on 13 November 2018, 2019, and 2020, respectively. Each option granted if not exercised subsequently will expire on 12 November 2027.

The following share options were outstanding under the Schemes during the year:

	2017		2016	
	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**0.71**	**69,507**	0.65	102,253
Granted during the year	**1.11**	**30,160**	1.63	1,000
Forfeited during the year	**0.61**	**(4,000)**	0.55	(16,070)
Exercised during the year	**0.55**	**(12,353)**	0.55	(17,675)
Expired during the year	**0.55**	**(1)**	0.55	(1)
At 31 December	**0.89**	**83,313**	0.71	69,507

The weighted average share price at the date of exercise for the share options exercised during the year was HK$1.14 per share (2016: HK$1.80 per share).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
49,513	**0.55**	**31-12-2015 to 05-12-2019**
3,000	**3.93**	**10-06-2016 to 09-06-2025**
1,000	**1.63**	**31-12-2016 to 04-07-2026**
6,800	**1.26**	**31-12-2017 to 26-03-2027**
3,000	**1.26**	**30-06-2017 to 26-03-2027**
5,000	**1.10**	**15-05-2018 to 14-05-2027**
15,000	**1.03**	**13-11-2018 to 12-11-2027**
83,313		

2016

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
65,507	0.55	31-12-2015 to 05-12-2019
3,000	3.93	10-06-2016 to 09-06-2025
1,000	1.63	31-12-2016 to 04-07-2026
69,507		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was approximately RMB15,580,000 (2016: RMB620,000), of which the Group recognised a share option expense of RMB4,397,000 during the year ended 31 December 2017.

The fair value of the share options granted during the year was estimated at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists out inputs used in the model:

	2017	2016
Dividend yield (%)	**–**	–
Expected volatility (%)	**56.1-57.3**	61.8
Risk-free interest rate (%)	**1.42-1.75**	0.98
Expected life of options (year)	**10**	10
Weighted average share price (HK$ per share)	**0.60**	0.72

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of comparable listed companies in the same industry.

The 12,353,000 share options exercised during the year resulted in the issue of 12,353,000 ordinary shares of the Company and share premium of RMB19,377,000.

At the end of the reporting period, the Company had 83,313,000 share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 83,313,000 additional ordinary shares of the Company, an additional share capital of approximately RMB54 and a share premium of approximately RMB61,746,000.

The Group recognised total share option expenses of RMB14,805,000 for the year ended 31 December 2017 (2016: RMB23,285,000).

(2) Restricted Share Unit ("RSU") Plan

The Company approved and adopted a pre-IPO restricted share unit plan (the "Pre-IPO RSU Plan") and a post-IPO restricted share unit plan (the "Post-IPO RSU Plan") on 17 November 2014 for the purpose of rewarding eligible participants for their contribution to the Group. Eligible participants of the Pre-IPO RSU Plan and Post-IPO RSU Plan include full-time employees, officers or suppliers, customers, consultants, agents or advisers of the Group, and any other person who, in the sole opinion of the Board, have contributed or will contribute to the Group.

The total number of the ordinary shares underlying awards made pursuant to the Pre-IPO RSU Plan is 13,850,000. On 17 November 2014, RSUs to subscribe for 13,850,000 shares were granted to certain eligible employees and all of the 13,850,000 Pre-IPO RSUs granted were vested on 1 April 2015.

The maximum number of shares that may underlie awards of RSUs to be granted under the Post-IPO RSU Plan is 45,000,000 shares. On 27 March 2017, under the Post-IPO RSU Plan, the Company conditionally granted a total number of 14,000,000 RSUs to certain eligible employees. Such RSUs shall be vested 50% each at 31 December of year 2017 and 2018, respectively.

The fair value of the RSUs granted as at the date of grant was approximately RMB15,232,000 (HK$1.23 each), of which the Group recognised a total RSU award expense of RMB10,880,000 in the year 2017.

As at 31 December 2017, the Company had 7,000,000 RSUs outstanding under the Post-IPO RSU Plan which represented 0.45% of the Company's shares in issue as at that date.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

Annual General Meeting

The 2018 annual general meeting (the "AGM") of the Company is scheduled to be held on Monday, 28 May 2018. A notice convening the AGM will be published and dispatched to the Shareholders in accordance with the requirements of the articles of association of the Company and the Listing Rules in due course.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2017, the Company repurchased a total of 48,879,000 Shares on the Stock Exchange at an aggregate price paid of HK$54,011,912.05 before expenses pursuant to the share repurchase mandate approved by the Shareholders at the annual general meeting of the Company held on 26 May 2017.

Details of the share repurchase are as follows:

Month of repurchase	Number of shares repurchased	Price paid per Share Highest price paid	Price paid per Share Lowest price paid	Aggregate price paid
		HK$	*HK$*	*HK$*
January 2017	12,178,500	1.16	1.01	13,137,585.20
February 2017	10,099,500	1.32	1.15	12,552,284.96
March 2017	4,441,500	1.23	1.16	5,397,240.09
April 2017	949,500	1.23	1.11	1,115,985.25
June 2017	631,500	0.98	0.94	602,100.00
July 2017	9,015,000	0.97	0.82	8,326,350.70
August 2017	582,000	1.00	1.00	582,000.00
September 2017	4,899,000	1.33	0.99	5,765,775.37
October 2017	2,700,000	1.21	1.11	3,111,570.00
November 2017	2,233,500	1.04	0.98	2,276,745.17
December 2017	1,149,000	1.00	0.96	1,144,275.31
Total	48,879,000			54,011,912.05

All the repurchased Shares have been cancelled prior to 6 February 2018 and the issued share capital of the Company has been reduced by the nominal value of the repurchased shares. The premium paid on repurchase was charged against the share premium of the Company. The repurchases were effected by the Board with a view to benefiting the Shareholders as a whole by enhancing the earnings per share of the Company.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2017.

Final Dividend

The Board did not declare a final dividend for the year ended 31 December 2017 (the year ended 31 December 2016: Nil)

Disclosure of Information of Directors Pursuant to Rule 13.51B(1) of the Listing Rules

Mr. YAO Jianjun, the Chairman, Chief Executive Officer and Executive Director, has agreed to reduce his salary and director's remuneration to HKD1.00 per annum commencing from 1 January 2018 until the Company recorded a net profit for a year in the future.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 23 May 2018 to Monday, 28 May 2018, both days inclusive, during which period no transfer of Shares will be effected, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM to be held on Monday, 28 May 2018. All transfers of Shares accompanied by the relevant Share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 22 May 2018.

SCOPE OF WORK OF THE COMPANY'S AUDITORS IN RESPECT OF THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Company's auditors to the amounts set out in the Group's draft consolidated financial statements for the year. The auditors made no comments as to the reasonableness or appropriateness of those assumptions of the "Non-IFRSs Measures" as presented in the preliminary announcement. The work performed by the Company's auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditors on the preliminary announcement.

Audit Committee

The Company established the Audit Committee on 17 November 2014 with written terms of reference adopted in compliance with the CG Code and the terms of reference was amended on 28 December 2015. As at the date of this announcement, the Audit Committee comprises Ms. LIU Qianli, Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, all of whom are independent non-executive Directors.

The Audit Committee, together with the Board and the auditors of the Company, has reviewed the accounting standards and practices adopted by the Group and the consolidated financial statements of the Company for the year ended 31 December 2017.

Compliance with the CG Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. Save as disclosed herein below, the Company has complied with all applicable code provisions under the CG Code for the year ended 31 December 2017.

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

According to code provision A.6.7 of the CG Code, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the view of the Shareholders. Mr. Ma Suen Yee Andrew and Mr. Lai Xiaoling, the independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 26 May 2017 due to other business commitments.

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

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for securities transactions by the Directors. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code throughout the year ended 31 December 2017.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2017.

Publication of the Annual Results and 2017 Annual Report

This annual results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.feiyuhk.com), and the 2017 annual report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the abovementioned websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the shareholders, management team, employees, business partners and customers of the Group for their continued support and contribution to the Group.

GLOSSARY

"ARPPU"	average revenue per paying user, calculated by dividing monthly average revenue from the sale of virtual items and premium features during a certain period by the number of average MPUs during the same period
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors of the Company
"Cayman Islands"	the Cayman Islands
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the Chairman of the Board
"Chief Executive Officer"	the chief executive officer of our Company
"China" or "PRC" or "Mainland China"	the People's Republic of China; for the purpose of this announcement, "PRC" does not include Taiwan, the Macau Special Administrative Region and Hong Kong
"Company", "we", "us" or "our"	Feiyu Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2014
"Director(s)"	Director(s) of the Company
"Executive Director(s)"	the executive Director(s)

"Global Offering"	the offer of 30,000,000 Shares for subscription by the public in Hong Kong pursuant to the Hong Kong Public Offering and the offer of 270,000,000 Shares for subscription by institutional, professional, corporate and other investors pursuant to the International Offering (as respectively defined in the Prospectus)
"Group" or "the Group"	our Company, its subsidiaries and the PRC Operating Entities
"HK$" or "Hong Kong dollars" or "HKD"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"IAS(s)"	International Accounting Standards
"IASB"	International Accounting Standard Board
"IFRS(s)"	International Financial Reporting Standards, amendments and interpretations issued by the IASB
"Kailuo Tianxia"	Beijing Kailuo Tianxia Technology Co., Ltd. (北京凱羅天下科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MAU"	monthly active users, which is the number of players who logged into a particular game in the relevant calendar month. Under this metric, a player who logged into two different games in the same month is counted as two MAUs. Similarly, a player who plays the same game on two different publishing platforms in a month would be counted as two MAUs. Average MAUs for a particular period is the average of the MAUs in each month during that period
"Meitu Networks"	Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司), the PRC operating entity of Meitu, Inc. which is a global leading mobile internet company with its shares listed on the main board of the Stock Exchange (Stock Code: 1357)

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MPUs"	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period
"PC"	personal computer
"PRC Operating Entities"	Xiamen Guanghuan and its subsidiaries and "PRC Operating Entity" means any one of them
"Prospectus"	the prospectus dated 25 November 2014 issued by the Company
"Renminbi" or "RMB"	Renminbi yuan, the lawful currency of the PRC
"RPG"	role-playing games, which involve a large number of players who interact with each other in an evolving fictional world. Each player adopts the role of one or more "characters" who develop specific skill sets (such as melee combat or casting magic spells) and control the character's actions. There are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the players, and the storyline continuously evolves even while the players are offline and away from the games
"RSU(s)"	restricted share units or any one of them
"Share(s)"	ordinary share(s) in the share capital of our Company with nominal value of US$0.0000001 each
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in the Listing Rules
"US$" or "United States Dollars" or "USD"	United States dollars, the lawful currency of the United States of America
"Xiamen G-bits"	Xiamen G-bits Equity Investment Co., Ltd.(廈門吉比特股權投資有限公司), a wholly owned subsidiary of G-bits Network Technology (Xiamen) Co., Ltd. which is an online game developing and operating company with its shares listed on the Shanghai Stock Exchange (Stock Code: 603444)

"Xiamen Guanghuan"	Xiamen Guanghuan Information Technology Co., Ltd. (廈門光環信息科技有限公司), a limited company incorporated under the laws of the PRC on 12 January 2009
"Xiamen Youli"	Xiamen Youli Information Technology Co., Ltd. (廈門游力信息科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company

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

Hong Kong, 26 March 2018

As at the date of this announcement, the Board comprises Messrs. YAO Jianjun, CHEN Jianyu, BI Lin, 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.