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

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS

- Revenue of the Group decreased by 69.6% to RMB51.0 million for the year ended 31 December 2018 (2017: approximately RMB167.6 million)
- Revenue from the Group's Digital Point business increased by approximately 52.5 times to RMB50.3 million for the year ended 31 December 2018 (2017: approximately RMB0.94 million)
- GMV from the Group's Digital Point business increased by approximately 57 times to RMB174 million for the year ended 31 December 2018 (2017: approximately RMB3 million)
- As at the end of December 2018, the Changyou platform had approximately 30 million registered users
- The Group recorded a loss of RMB263.9 million for the year ended 31 December 2018 (2017: approximately RMB199.7 million)
- Net loss attributable to equity shareholders of the Company amounted to RMB69.2 million for the year ended 31 December 2018 (2017: approximately RMB66.4 million)
- The Board does not recommend the payment of any final dividend for the year ended 31 December 2018

The board (the "**Board**") of directors (the "**Directors**") of Fortunet e-Commerce Group Limited (the "**Company**") presents herewith the annual audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2018
(Expressed in Renminbi ("RMB"))

	Note	2018 *RMB'000*	2017 *RMB'000* *(Note)*
Revenue	4	**50,977**	167,632
Cost of sales		**(59,068)**	(175,216)
Gross loss	4(b)	**(8,091)**	(7,584)
Other income	5	**2,851**	2,673
Selling and distribution expenses		**(113,071)**	(48,317)
Administrative expenses		**(85,833)**	(113,368)
Research and development costs		**(49,300)**	(54,229)
Impairment losses	6	**(26,504)**	(68,329)
Loss from operations		**(279,948)**	(289,154)
Finance income/(costs)	7(a)	**17,137**	(4,812)
Loss arising from changes in fair value on held-for-trading investments	13	**(1,085)**	–
Gain on disposal of subsidiaries		**–**	141,495
Loss before taxation	7	**(263,896)**	(152,471)
Income tax	8	**–**	(47,210)
Loss for the year		**(263,896)**	(199,681)
Attributable to:			
Equity shareholders of the Company		**(69,167)**	(66,413)
Non-controlling interests		**(194,729)**	(133,268)
Loss for the year		**(263,896)**	(199,681)
Loss per share			
Basic (RMB)	9(a)	**(0.038)**	(0.037)
Diluted (RMB)	9(b)	**(0.043)**	(0.047)

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

(Expressed in RMB)

	Note	**2018**	2017
		RMB'000	*RMB'000*
			(Note)
Loss for the year		**(263,896)**	(199,681)
Other comprehensive income for the year (after tax):			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements into presentation currency		**3,511**	–
Total comprehensive income for the year		**(260,385)**	(199,681)
Attributable to:			
Equity shareholders of the Company		**(65,656)**	(66,413)
Non-controlling interests		**(194,729)**	(133,268)
Total comprehensive income for the year		**(260,385)**	(199,681)

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018

(Expressed in RMB)

	Note	**2018**	2017
		RMB'000	*RMB'000*
			(Note)
Non-current assets			
Property, plant and equipment		**9,396**	8,805
Intangible assets	*10*	**–**	–
Goodwill	*11*	**–**	–
		9,396	8,805
Current assets			
Inventories		**482**	94
Trade and other receivables	*12*	**67,065**	49,646
Held-for-trading investments	*13*	**3,062**	–
Pledged bank deposits		**–**	30
Cash and cash equivalents		**97,420**	392,994
		168,029	442,764
Current liabilities			
Trade and other payables	*14*	**43,478**	34,096
Convertible bonds	*15*	**44,435**	–
		87,913	34,096
Net current assets		**80,116**	408,668
Total assets less current liabilities		**89,512**	417,473
Non-current liabilities			
Convertible bonds	*15*	**–**	85,075
NET ASSETS		**89,512**	332,398

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2018 (continued)
(Expressed in RMB)

	Note	**2018**	2017
		RMB'000	*RMB'000*
			(Note)
CAPITAL AND RESERVES	*19*		
Share capital		**117,812**	117,978
Reserves		**228,171**	276,162
Total equity attributable to equity shareholders of the Company		**345,983**	394,140
Non-controlling interests		**(256,471)**	(61,742)
TOTAL EQUITY		**89,512**	332,398

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

NOTES

(Expressed in RMB unless otherwise indicated)

1 STATEMENT OF COMPLIANCE

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

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

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (collectively referred to as the "Group").

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

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

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

For the year ended 31 December 2018, the Group had incurred net loss of RMB263,896,000 and net cash used in operating activities of RMB245,831,000. Notwithstanding of the above, based on a cash flow forecast of the Group for the twelve months ending 31 December 2019 prepared by the management, the directors of the Company are of the opinion that the Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation,* which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, *Financial instruments,* including the amendments to HKFRS 9, *Prepayment features with negative compensation*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The adoption of HKFRS 9 does not have a significant impact on the opening balance of equity at 1 January 2018. Comparative information continues to be reported under HKAS 39.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories and carrying amounts for each class of the Group's financial assets under HKFRS 9 are the same as those under HKAS 39 as at 1 January 2018.

The measurement categories for all financial assets and financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables).

The adoption of HKFRS 9 does not have a significant impact on the opening balance of equity at 1 January 2018 as compared with that recognised under HKAS 39, and accordingly, no additional ECLs has been recognised by the Group at 1 January 2018.

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The assessment of the determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and there is no impact to the opening balance of equity at 1 January 2018 on the initial application of HKFRS 15. Comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

3 CHANGES IN ACCOUNTING POLICIES (continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods and rendering of services.

b. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The adoption of HKFRS 15 does not have a significant impact on the presentation of assets and liabilities at 1 January 2018, and accordingly, no adjustment has been made in this regard.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

Upon disposal of the manufacture and sale of axles business in 2017 and the cessation of the e-commerce business during the current year, the principal activities of the Group are the development and operation of an electronic trading platform to facilitate awards earned by customers of loyalty programmes of other companies to be exchanged globally in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions. Further details regarding the Group's principal activities are disclosed in Note 4(b).

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018	2017
	RMB'000	*RMB'000*
		(Note)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines:		
– Revenue from facilitation of digital point business through operation of an electronic platform	**50,321**	941
– Revenue from trading of goods through operation of an electronic distribution platform	**656**	134,040
– Sales of axles and related components	**–**	32,651
	50,977	167,632

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 (see Note 3(ii)).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in Note 4(b).

The Group's customer base is diversified. There was no customer with whom transactions exceeded 10% of the Group's revenue for the year ended 31 December 2018 (2017: three customers of RMB153,512,000).

(b) Segment reporting

The Group manages its businesses by lines of business. In view of the disposal of the manufacture and sale of axles business in 2017 and the cessation of the e-commerce business during the current year, the Group focuses on the development of an electronic trading platform to facilitate awards earned by customers of loyalty programmes of other companies to be exchanged globally in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions, i.e. the "Digital point business". In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following operating segments:

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

- E-commerce business: this segment trades goods through electronic distribution platform, mobile applications and other related means. The Group ceased the operation of this segment during the year ended 31 December 2018.

- Axle business: this segment manufactures and sells axles and related components to truck manufacturers and after-sales services market. The segment has been disposed of during the year ended 31 December 2017.

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

(i) Segment results, assets and liabilities

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

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and expenses incurred by those segments. No inter-segment sales have occurred for the years ended 31 December 2018 and 2017. The Group's other operating expenses, such as selling and distribution expenses, administrative expenses, research and development costs, impairment losses, finance (income)/costs, loss arising from changes in fair value on held-for-trading investments, loss arising from changes in fair value on financial liabilities recognised upon the approval for issuing of warrants and gain on disposal of subsidiaries, are not measured under individual segments. The measure used for reporting segment result is gross profit/(loss).

In view of the shift of focus to the digital point business, the most senior executive management consider that the Group's assets and liabilities are not required to be monitored under this segment.

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	2018		
	Digital point business	**E-commerce business**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Disaggregated by timing of revenue recognition			
Point in time	**45,542**	**656**	**46,198**
Over time	**4,779**	**–**	**4,779**
Revenue from external customers and reportable segment revenue	**50,321**	**656**	**50,977**
Reportable segment gross (loss)/profit	**(8,278)**	**187**	**(8,091)**

	2017			
	Digital point business	E-commerce business	Axle business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note)	*(Note)*	*(Note)*	*(Note)*
Revenue recognised at point in time from external customers and reportable segment revenue	941	134,040	32,651	167,632
Reportable segment gross loss	(238)	(2,404)	(4,942)	(7,584)

Note: The Group has initially applied HKFRS 15 using cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 (see Note 3(ii)).

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(ii) Geographic information

All of the revenue of the Group for the years ended 31 December 2018 and 2017 were generated from sales and services to customers in the People's Republic of China (the "PRC"). All of the non-current assets of the Group are either physically located or allocated to operations in the PRC.

5 OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Interest income	**2,714**	4,011
Government grants	**146**	1,171
Net loss on disposal of property, plant and equipment	**(9)**	(2,563)
Others	**–**	54
	2,851	2,673

6 IMPAIRMENT LOSSES

	2018	2017
	RMB'000	*RMB'000*
Impairment losses/(reversal of impairment losses) on trade and other receivables *(Note 12)*	**26,504**	(5,684)
Impairment losses on goodwill *(Note 11)*	**–**	61,013
Impairment losses on intangible assets *(Note 10)*	**–**	13,000
	26,504	68,329

7 LOSS BEFORE TAXATION

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

(a) Finance (income)/costs:

	2018	2017
	RMB'000	*RMB'000*
Finance charges on convertible bonds *(Note 15)*	**11,385**	13,126
Interest on bank and other loans	**–**	5,324
Finance charges on secured notes	**–**	883
Total borrowing costs	**11,385**	19,333
Net foreign exchange (gain)/loss	**(1,494)**	16,030
Changes in fair value on the derivative components of convertible bonds *(Note 15)*	**(26,438)**	(32,401)
Gain on redemption of secured notes	**–**	(1,228)
(Gain)/loss on redemptions and extinguishment of convertible bonds	**(590)**	3,078
	(17,137)	4,812

No borrowing costs have been capitalised for the year ended 31 December 2018 (2017: RMBNil).

(b) Staff costs[#]:

	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**103,246**	51,684
Contributions to defined contribution retirement plans	**12,163**	3,905
Equity-settled share-based payment expenses *(Note 16)*	**18,133**	31,500
	133,542	87,089

7 LOSS BEFORE TAXATION (continued)

(b) Staff costs# (continued):

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

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

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

(c) Other items:

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories#	**58,713**	175,109
Auditor's remuneration	**2,580**	2,200
Depreciation and amortisation#	**3,445**	16,987
Operating lease charges in respect of properties	**11,756**	9,992

Cost of inventories includes RMBNil for the year ended 31 December 2018 (2017: RMB6,831,000), relating to staff costs, and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 7(b) for each of these types of expenses.

8 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2018	2017
	RMB'000	*RMB'000*
Deferred taxation *(Note 17(a))*:		
Origination and reversal of temporary differences	–	47,210

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

	2018	2017
	RMB'000	*RMB'000*
Loss before taxation	**(263,896)**	(152,471)
Expected tax on loss before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**(60,833)**	(32,720)
Tax effect of non-deductible expenses	**12,718**	1,952
Tax effect of deductible/(reversal of) temporary differences not recognised for deferred tax	**4,665**	(1,476)
Tax effect of unused tax losses not recognised	**43,450**	30,969
Tax effect of write-down of deferred tax assets and reversal of deferred tax liabilities	**–**	48,485
Income tax	**–**	47,210

Notes:

(i) The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2018 (2017: 16.5%). No provision for Hong Kong Profits Tax has been made, as the Company and the subsidiaries of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2018 (2017: RMBNil).

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

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2018 (2017: 25%).

9 LOSS PER SHARE

(a) Basic loss per share

The basic loss per share for the year ended 31 December 2018 is calculated based on the loss attributable to the equity shareholders of the Company of RMB69,167,000 (2017: RMB66,413,000) and the weighted average of 1,812,096,000 ordinary shares (2017: 1,818,494,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2018	2017
	'000	*'000*
Issued ordinary shares at 1 January	**1,813,509**	1,671,615
Effect of shares issued	**–**	149,440
Effect of shares repurchased *(Note 19(b))*	**(1,413)**	(2,561)
Weighted average number of ordinary shares at 31 December	**1,812,096**	1,818,494

(b) Diluted loss per share

The diluted loss per share is calculated based on the loss attributable to equity shareholders of the Company (diluted) of RMB80,820,000 (2017: RMB88,130,000) and the weighted average number of ordinary shares (diluted) of 1,867,476,000 (2017: 1,883,029,000 ordinary shares) calculated as follows:

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

	2018	2017
	RMB'000	*RMB'000*
Loss attributable to the equity shareholders of the Company	**(69,167)**	(66,413)
After tax effect of effective interest and exchange differences on the liability component of convertible bonds	**14,059**	9,231
After tax effect of changes in fair value recognised and exchange differences on the derivative components of convertible bonds	**(25,122)**	(34,026)
(Gain)/loss on redemptions and extinguishment of convertible bonds	**(590)**	3,078
Loss attributable to the equity shareholders of the Company (diluted)	**(80,820)**	(88,130)

9 LOSS PER SHARE (continued)

(b) Diluted loss per share (continued)

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

	2018	2017
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**1,812,096**	1,818,494
Effect of conversion of convertible bonds	**55,380**	64,535
Weighted average number of ordinary shares (diluted) at 31 December	**1,867,476**	1,883,029

The Group's share options granted and warrants issued could potentially dilute basic earnings/(loss) per share in the future, but were not included in the calculation of diluted loss per share because they are antidilutive during the years ended 31 December 2018 and 2017.

10 INTANGIBLE ASSETS

	Domain name	**Exclusive income right**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Note (i))	*(Note (ii))*	
Cost:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	21,917	13,824	35,741
Accumulated amortisation and impairment losses:			
At 1 January 2017	(8,850)	(4,224)	(13,074)
Charge for the year	(5,059)	(4,608)	(9,667)
Impairment losses *(Note 6)*	(8,008)	(4,992)	(13,000)
At 31 December 2017, 1 January 2018 and 31 December 2018	(21,917)	(13,824)	(35,741)
Carrying amount:			
At 31 December 2017 and 2018	–	–	–

(i) This intangible asset represented the Group's electronic distribution platform, www.CCIGMALL.com, which the Group acquired through the acquisition of an e-commerce business in 2015. In view of the increasing competition within the e-commerce sector, and the slower than expected growth and uncertainties surrounding the future of the Group's own e-commerce business, the Group has written down the carrying amount of the intangible asset to its recoverable amount of RMBNil in 2017. The Group has ceased the e-commerce business during the year ended 31 December 2018.

10 INTANGIBLE ASSETS (continued)

(ii) This intangible asset represented an exclusive income right obtained in 2016 from the development of a tailor-made e-commerce platform for a property developer in order to earn revenue from this property developer by assisting its property sales through the platform. In view of the slower than expected progress of the property projects under development by the above property developer, the management of the Group considered such projects may not be developed as planned. The Group has written down the carrying amount of the intangible asset to its recoverable amount of RMBNil in 2017. The directors of the Company confirm that the Group is taking the necessary actions to recover all or part of the consideration paid to the above property developer.

11 GOODWILL

	RMB'000
Cost:	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	61,013
Accumulated impairment losses:	
At 1 January 2017	–
Impairment losses *(Note 6)*	(61,013)
At 31 December 2017, 1 January 2018 and 31 December 2018	(61,013)
Carrying amount:	
At 31 December 2017 and 2018	–

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

As mentioned in Note 10, in view of the slower than expected growth of the e-commerce business, the Group has written down the carrying amount of the goodwill to its recoverable amount of RMBNil in 2017. The Group has ceased the e-commerce business during the year ended 31 December 2018.

12 TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**23,979**	4,296
Less: loss allowance	**(3,604)**	(3,399)
	20,375	897
Other receivables:		
– Loans to third parties	**54,352**	31,765
– Others	**49,592**	46,053
Other receivables	**103,944**	77,818
Less: loss allowance	**(67,031)**	(40,130)
	36,913	37,688
Financial assets measured at amortised cost	**57,288**	38,585
Prepayments and deposits	**9,777**	11,061
	67,065	49,646

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

Ageing analysis

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**19,518**	897
Over 3 months but within 6 months	**688**	–
Over 6 months	**169**	–
	20,375	897

13 HELD-FOR-TRADING INVESTMENTS

	2018	2017
	RMB'000	RMB'000
Held-for-trading investments:		
– Listed equity securities in Hong Kong	**2,909**	–
– Unlisted units in investments funds	**153**	–
	3,062	–

Held-for-trading investments are stated at their fair values which have been determined by reference to the published price quotations in active markets. Loss on fair value changes of the held-for-trading investments of approximately RMB1,085,000 has been recognised in profit or loss during the year ended 31 December 2018.

14 TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**17,954**	1,120
Payables for staff related costs	**6,258**	8,787
Payables for miscellaneous taxes	**2,782**	614
Payables for selling expenses incurred for digital point business	**8,286**	14,705
Others	**6,467**	2,460
	23,793	26,566
Financial liabilities measured at amortised cost	**41,747**	27,686
Deposits received from business partner in connection with the Group's digital point business	**1,000**	1,000
Advances received from customers	**147**	154
Others	**584**	5,256
	43,478	34,096

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

14 TRADE AND OTHER PAYABLES (continued)

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**17,536**	1,034
3 to 6 months	**239**	26
Over 6 months	**179**	60
	17,954	1,120

15 CONVERTIBLE BONDS

The Group's convertible bonds are analysed as follows:

	Liability components	**Derivative components**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2017	67,035	48,941	115,976
Convertible bond issued	59,321	27,449	86,770
Accrued finance charges for the year *(Note 7(a))*	13,126	–	13,126
Interest paid	(9,184)	–	(9,184)
Exchange adjustments	(3,895)	(1,625)	(5,520)
Fair value changes on the derivative components *(Note 7(a))*	–	(32,401)	(32,401)
Extinguishment of convertible bonds	(67,372)	(16,320)	(83,692)
At 31 December 2017 and 1 January 2018	59,031	26,044	85,075
Accrued finance charges for the year *(Note 7(a))*	11,385	–	11,385
Interest paid	(7,480)	–	(7,480)
Exchange adjustments	3,127	1,350	4,477
Fair value changes on the derivative components *(Note 7(a))*	–	(26,438)	(26,438)
Redemptions, and extinguishment and recognition of convertible bonds	(21,700)	(884)	(22,584)
At 31 December 2018	44,363	72	44,435

In June 2015, the Company issued two secured convertible bonds with an aggregate face value of USD10,000,000 (equivalent to approximately RMB61,176,000) to Chance Talent Management Limited ("Chance Talent"), a third party, (together, "CB1"). On the date of issuance, both bonds bore interest at 13% per annum and were to mature in June 2018, where Chance Talent could convert them into the Company's ordinary shares at the respective stipulated conversion prices before their maturity dates.

15 CONVERTIBLE BONDS (continued)

In December 2017, the Company has extinguished CB1 and issued secured convertible bonds with face value of USD10,000,000 (equivalent to approximately RMB66,066,000) to Chance Talent ("CB2"). On the date of issuance, CB2 bore interest at 13% per annum, were to mature in June 2019 and secured by 109,343,662 ordinary shares in the Company owned by Century Investment (Holding) Limited ("Century Investment"). Chance Talent could convert CB2 into the Company's ordinary shares at HK$1.209 per share before the maturity date.

On 4 July 2018, the Company and Chance Talent entered into an amendment to amend the terms of CB2 which constituted significant contract modifications, and accordingly, CB2 has been accounted for as extinguishment of the original financial instrument and the recognition of new financial instrument. Pursuant to this agreement, the Company redeemed a principal amount of USD2,800,000 (equivalent to approximately RMB18,526,000) of CB2 in cash on the same day. In December 2018, the Company has further redeemed a principal amount of USD500,000 (equivalent to approximately RMB3,468,000) of CB2 in cash.

On 13 December 2018, an additional 45,347,514 Shares in the Company owned by Century Investment were provided as securities for CB2.

The aggregate difference between the redemptions/extinguishment and recognition and the carrying amounts of CB2 took place in 2018 amounted to a gain of RMB590,000 (2017: loss of RMB3,078,000) which has been recognised in profit or loss during the year.

16 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

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

On 7 August 2018, 72,000,000 share options were granted to a director of the Company under the above share option scheme. All of the share options granted will vest immediately from the date of grant and will mature on 3 May 2023. Each share option gives the holder the right to subscribe for one ordinary share in the Company at HK$1.21 and is settle gross in shares.

16 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) *The terms and conditions of the share options granted are as follow:*

	Number of instruments	*Vesting condition*	*Contractual life of share options*
Share options granted to directors:			
– On 3 October 2016	45,000,000	One year from the date of grant	3 years
– On 7 August 2018	72,000,000	No vesting condition	4.74 years
Share options granted to employees:			
– On 3 October 2016	35,000,000	One year from the date of grant	3 years
Total share options granted	152,000,000		

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

	2018		2017	
	Weighted average exercise price *HK$*	**Number of share options**	Weighted average exercise price *HK$*	Number of share options
Outstanding at the beginning of the year	**1.41**	**75,000,000**	1.41	80,000,000
Granted during the year	**1.21**	**72,000,000**	1.41	–
Forfeited during the year		**–**		(5,000,000)
Outstanding at the end of the year	**1.31**	**147,000,000**	1.41	75,000,000
Exercisable at the end of the year	**1.31**	**147,000,000**	1.41	75,000,000

The share options outstanding at 31 December 2018 had a weighted average exercise price of HK$1.31 (2017: HK$1.41) and a weighted average remaining contractual life of 2.5 years (2017: 1.8 years).

16 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Fair value of share options and assumptions for share options granted on 7 August 2018

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions	**Share options granted on 7 August 2018**
Fair value at measurement date	HK$0.2889
Share price	HK$0.70
Exercise price	HK$1.21
Expected volatility (expressed as volatility used in the modelling under the Binomial Option Pricing Model)	69.305%
Option life (contractual life used in the modelling under the Binomial Option Pricing Model)	4.74 years
Expected dividends	0.00%
Risk-free interest rate (based on the yields of Hong Kong dollar swap curve)	2.011%

17 DEFERRED TAX ASSETS AND LIABILITIES

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

	Assets		**Liabilities**	
Deferred tax arising from:	**Unused tax losses**	**Credit loss allowances**	**Fair value adjustments on property, plant and equipment, lease prepayments and intangible assets and subsequent depreciation and amortisation**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	40,504	9,983	(3,946)	46,541
(Charged)/credited to the consolidated statement of profit or loss *(Note 8(a))*	(40,504)	(9,983)	3,277	(47,210)
Decrease from disposal of subsidiaries	–	–	669	669
At 31 December 2017, 1 January 2018 and 31 December 2018	–	–	–	–

17 DEFERRED TAX ASSETS AND LIABILITIES (continued)

(b) Deferred tax assets not recognised

In accordance with the accounting policy set out in the annual report, the Group has not recognised deferred tax assets in respect of unused tax losses and temporary differences of RMB468,756,000 at 31 December 2018 (2017: RMB276,296,000), as it is not probable that future taxable profits against which the losses and temporary differences can be utilised will be available in the relevant tax jurisdiction and entity. The unused tax losses at 31 December 2018 will expire on or before 31 December 2023.

18 DIVIDENDS

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

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: RMBNil).

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

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

19 SHARE CAPITAL

(a) Issued share capital

	2018		2017	
	No. of shares ’000	***USD’000***	*No. of shares ’000*	*USD’000*
Authorised:				
Ordinary shares of USD0.01 each	**5,000,000**	**50,000**	5,000,000	50,000

	2018		2017	
	No. of shares ’000	***RMB’000***	*No. of shares ’000*	*RMB’000*
Ordinary shares of USD0.01 each, issued and fully paid:				
At 1 January	**1,813,509**	**117,978**	1,671,615	108,209
Shares issued	**–**	**–**	151,515	10,404
Shares repurchased *(Note 19(b))*	**(2,556)**	**(166)**	(9,621)	(635)
At 31 December	**1,810,953**	**117,812**	1,813,509	117,978

19 SHARE CAPITAL (continued)

(b) Purchase of own shares

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

Month/year	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate price paid
		HK$	*HK$*	*HK$'000*
May 2018	715,000	1.02	0.98	718
June 2018	1,841,000	1.07	0.71	1,616
	2,556,000			2,334

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these ordinary shares of USD25,560 (equivalent to approximately RMB166,000). The premium paid on the repurchase of the ordinary shares of HK$2,135,000 (equivalent to approximately RMB1,758,000) was charged to share premium directly.

20 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

On 31 January 2019, the Company announced that Pointsea Company Limited ("PCL"), an indirect non-wholly owned subsidiary of the Company, entered into separate agreements with three independent parties, pursuant to which PCL will issue an aggregate of 84,109,692 new ordinary shares at a total subscription consideration of RMB300,000,000 to the above investors.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has successfully capitalised on its many years of experience in the e-commerce business, which has enabled the Group to grasp the unique opportunity and enter into the digital points business segment and industry. The establishment of the "Changyou" ("暢由") digital point business ecosystem alliance (the "**Changyou Alliance**") and the launch of the "Changyou" electronic trading platform in September 2017 symbolises the beginning of the Group's new journey.

Given the rapid development of the business of Changyou (the "**Digital Point**" business), the Group has decisively switched its focus in the second half of 2018 to further expand the Changyou platform as its core business. The Group has been focusing its resources on "Changyou" and striving to create a global platform for trading digital assets that provides users with a variety of services such as issuance, circulation, trading, payment, settlement and storage, eventually building a new retail business ecosystem dedicated to the future.

The Changyou Alliance is a universal alliance where digital points are integrated and realised freely among alliance members. The Group established the Changyou Alliance along with other well-known and leading companies (the "**Business Partners**") in various industries, including Bank of China, China Mobile and China Eastern Airlines, and developed an electronic trading platform, Changyou, which aims to integrate the resources of digital membership points and achieve full connectivity with the user system, settlement system and overall management system of the Business Partners so as to establish a diverse and comprehensive strategic partnership.

As at the end of December 2018, the Changyou platform had approximately 30 million registered users, and up to 11,000 million digital points were exchanged. The Changyou platform has more than 10,000 stock keeping units and more than 30 types of entertainment and services. The Changyou platform has partnered with more than 100 service providers to provide its users with a wide range of entertainment, travel, financial related and other products and services. For the financial year ended 31 December 2018, the Changyou Alliance business recorded a revenue of approximately RMB50.3 million, as compared with the total revenue from this business segment of RMB0.94 million for the period since its launch in September 2017 to 31 December 2017, which evidenced the recognition from users and the market. The Changyou Alliance is currently increasing its number of users and expanding the scope and variety of products, services and business or consumption scenarios and continuously improving its business model in order to achieve strong growth in the Digital Point business. In 2018, 85.6% of our total revenue of the Digital Point business was generated from the retail consumption scenario. The Digital Point business also generates advertising revenue for the Group, which accounts for approximately 9.5% of the total revenue of the Digital Point business.

The gross merchandise volume ("**GMV**") of the Digital Point business amounted to approximately RMB174 million for the year ended 31 December 2018 (2017: approximately RMB3 million), representing a significant increase of approximately RMB171 million (approximately 57 times) over the same period of last year. The Group is currently negotiating with a number of potential business partners to further enhance the Changyou platform and expand its business scope to other sectors.

On 31 January 2019, Pointsea Company Limited ("**PCL**"), an indirect non-wholly owned subsidiary of the Company, entered into subscription agreements with certain investors (collectively, the "**Investors**") in relation to the allotment and issue of shares in PCL (the "**Subscriptions**"). The aggregate amount of proceeds raised from the Subscriptions amounted to RMB300 million, which is intended to be utilised for, among other things, the further development and expansion of the Changyou business of the Group. The subscription price payable for the Subscriptions was determined after arm's length negotiations between PCL and the Investors on the basis of the pre-money valuation of US$500 million (approximately RMB3,424 million), given that the initial capital injection in PCL was only RMB200 million. Further details in relation to the Subscriptions are disclosed in the Company's announcement dated 31 January 2019 and the Company's supplemental announcement dated 14 February 2019, respectively.

Digital Points Business

The Changyou platform was launched in September 2017 and has been continuously increasing its number of platform users and expanding the scope and variety of products, services, business models and consumption scenarios available on the Changyou platform. The launch of the Changyou platform marks the smooth integration between the user system, the point settlement system and the technical infrastructure of the Business Partners. Changyou can rely on the Business Partners, each of which has an enormous user base, to promote and provide various products and services on the Changyou platform.

Through the Changyou platform, users may purchase, interchange and redeem its digital membership points from various partnership entities and industries globally. These digital points may be converted into virtual assets and credit on the Changyou platform, which can then be used for the purchase and consumption of merchandise, games and entertainment, financial services and other commercial transactions.

With the unique attributes of the digital points business model, high-quality equity assets are able to be tokenised such that the digital points earned by customers through different channels can be exchanged globally in the form of virtual assets or credits and used in four major consumption scenarios – retail, entertainment, travel and finance – or other business transactions, and can thus attract more customers for the Changyou platform.

Retail

The Group currently offers the sale and purchase of merchandise on the Changyou platform, including physical goods and virtual assets such as electronic gift cards and coupons. Through the all-round cooperation with Business Partners who offer rewards incentive services to customers, the Changyou platform continues to efficiently introduce broader categories of products and services to its platform users, and at the same time continuously improve the uniqueness of such categories on the platform. The platform has also enhanced its customer loyalty and its points-based attributes by leveraging the rewards incentives model and constantly enhancing consumption scenarios where platform users may use points or cash for transactions.

The Group has developed a partnership model of "Seller Recruitment + Partner Connection" to establish alliances with mainland-based well-known specialised and social e-commerce platforms which also offer rewards and incentive services. These alliances bring in a variety of products such as maternity and child products, beauty and personal care products as well as overseas products, and is dedicated to enriching merchandise categories which can be consumed by platform users through the exchange of digital points accumulated by such users. Moreover, the immediate settlement of incentive rewards after customer consumption on the platform can also largely increase user traffic to the Business Partners, which are beneficial to both the Changyou platform and its Business Partners.

Cooperation with other e-commerce platforms will further expand the database of the Changyou platform and allow the platform to better understand users' needs and habits. Through the cooperation with other e-commerce platforms, the platform has been accumulating user transaction attributes and data regarding customer preference, thus optimising the selection of products and services, the operating model and the target positioning of the Changyou platform. The platform can effectively attract users through its different channels, resources and marketing policies and drive cash consumption and improve its procurement capabilities.

Meanwhile, the Group is also committed to enhancing its self-operated points mall business. With the large amount of user data and experience of its partnership alliances, Changyou's points mall is able to continuously optimise its selection of products and services. With the increase in the number of platform users and vendors, the Group continues to find new products for the points mall, develop unique channels to sell items from various other brands, and create unique merchandise categories, such as the mobile phone top-up, gas card top-up as well as the video streaming platforms, among other consumption scenarios. As such, the points mall is able to bring users a more comprehensive and intimate consumer experience and improve user engagement.

The Group earns commission or the price difference of the procurement and sale of the products or services as revenue for the transactions under this consumption scenario.

Games and Entertainment

To further make the Changyou platform available to a wider customer base, the Group has also developed five major segments within the games and entertainment consumption scenario, including:

(i) Self-developed games: The Group offers self-developed online games. For instance, "Quiz King" was launched when the World Cup tournament started, which was well received by the public;

(ii) External games: The Changyou platform is connected with the "1768" game platform, enabling users to purchase games with Changyou points, which generates revenue for the Group;

(iii) Direct top-up: Partnered with other game platforms, the Changyou platform provides direct top-up services to facilitate account top-up using Changyou points for external games;

(iv) WeChat mini program: Focused on the huge user traffic brought by the WeChat mini program, Changyou's mini program Changyou Helper was launched to acquire more users, promote Changyou's new products and boost platform revenue; and

(v) Self-operated online claw crane game machine: Targeted at the recent popular trend of online claw crane game machines, the Group officially launched its self-operated online claw crane game machine in conjunction with one of the Business Partners in December, and carried out operational activities to help the Group generate revenue.

With the development of a variety of functional, entertaining and operational segments under the games and entertainment consumption scenario, the Group successfully generated increased user traffic for the Changyou platform, thus further driving its popularity among users.

Platform users can use their Changyou digital points to pay for the games which generates revenue for the Group, and the respective Business Partners will pay to Changyou once the digital points are utilised and redeemed on the game platforms of such Business Partners.

Travel and Related Services

As the living standards continue to improve in China, the demand for travel is increasing day by day. The Group has also closely followed the market trend and provided users with five major segments within this consumption scenario including flight reservation, hotel room and tourist attraction tickets bookings, duty-free goods, points rewards and food, enriching the application of the digital points and thereby increasing its value.

At present, the Group is cooperating with a well-known airline based in China to launch a cross-platform integration system that aims to make the points accumulated on the Changyou platform more useful in meeting various needs of platform users during their travel.

Finance Services

The Group collaborates with its business partners and third party payment service providers in order to include different forms of integrated payment services on the Changyou platform. E-finance has become an indispensable part of our society. As a pioneer in the use of digital points, the Changyou platform has also created five major segments in the financial services consumption scenario to fully take into consideration users' needs for online payment and asset management:

(i) Changyou payment business: The Group offers points consumption services and points cashier output services, including QR code payment services with special merchants and UnionPay merchants;

(ii) Points operations solution as an agent: Surrounding the core services of the Changyou platform, the Group provides points account, points-based consumption, points-based marketing and other loyalty management operation services and system services, which cover many sectors including finance, urban rail transit, home life and sports;

(iii) Consumer finance: Through cooperation with licensed consumer finance platforms, banks and other institutions, the Group is integrated with more than 30 partner products in providing loan product recommendation services and credit card recommendation services for platform users, and allows payment by instalment for products and services on the Changyou platform;

(iv) Asset management business: The Group selects financial products and services ranging from insurance, funds, wealth management and smart investment advisory services, and established the "Time Accumulation" system which provides platform users with a points-based value-added investment portfolio; and

(v) Changyou Cashier: This enhances the Changyou payment and cashier services by building on the combined services of points accommodation, cash, payment by instalment and e-wallets and connecting the transaction channels of banks and third-party payment agencies, which ensures the smooth, stable and secure payment methods for transactions on the Changyou platform. This can also facilitate platform users to have better flexibility to use their digital points for wide variety of goods and services.

The Group earns revenue through commission and rebates based on the amount of the transactions from the business under this consumption scenario.

As at 31 December 2018, there were a total of 289 staff engaged in the Digital Point business.

e-Commerce Business

The Group started the e-Commerce business in March 2015, initially through the operations of a business-to-business platform which set up a direct path between overseas suppliers, distributors and domestic retailers in the PRC. However, although the e-commerce business segment generated revenue for the Group, this business segment had been reporting a gross loss for at least the three financial years ended 31 December 2017. The e-commerce industry has become increasingly competitive in recent years, resulting in a negative profit margin for the Group due to strong competitors who dominate the market in the e-commerce industry. In light of the above, the Group decided to focus on business opportunities with potential growth. The Group began to scale down the e-Commerce business segment since the first quarter of 2017, and the business segment had ceased operations from 30 June 2018, which allows the Group to focus its resources on the development of the Changyou platform. However, the Group will continue to maintain the electronic distribution platform, www.ccigmall.com, of the e-Commerce business segment and will explore other future business prospects if and when suitable opportunities arise. In addition to the electronic distribution platform, the operational office, electronic hardware and technical infrastructure used for the e-Commerce business segment, such as computer units, servers, data storage and other hardware devices, are also suitable and appropriate for the Changyou platform, and as such will be integrated and utilised for the Digital Point business. Further, the Group had arranged for those staff with the relevant expertise and experience and previously engaged in the e-Commerce business segment to be internally transferred to the Digital Point business.

For the year ended 31 December 2018, revenue from the Group's e-Commerce business segment amounted to approximately RMB0.66 million, represents a decrease of 99.5% as compared with the corresponding period in 2017.

FINANCIAL REVIEW

Revenue

The Group recorded a consolidated revenue of approximately RMB51.0 million (2017: approximately RMB167.6 million), representing a decrease of approximately 69.6% as compared to 2017.

Revenue from the Digital Point business was approximately RMB50.3 million for the year ended 31 December 2018 (2017: approximately RMB0.94 million), representing approximately 98.7% (2017: approximately 0.6%) of the Group's total revenue.

Revenue from the Group's e-Commerce business segment was approximately RMB0.66 million for the year ended 31 December 2018 (2017: approximately RMB134.0 million), representing approximately 1.3% (2017: approximately 80.0%) of the Group's total revenue.

The decrease in total revenue of the Group was mainly due to the cessation of the operation of e-Commerce business segment since 30 June 2018 and the disposal of axle business in April 2017.

Gross loss

Gross loss for the year ended 31 December 2018 amounted to approximately RMB8.1 million, as compared with the gross loss of approximately RMB7.6 million for the year ended 31 December 2017. The gross loss was mainly due to the gross loss of approximately RMB8.3 million generated from the Digital Point business.

Other income

Other income of the Group for the year ended 31 December 2018 was approximately RMB2.9 million (2017: approximately RMB2.7 million). A details breakdown of the factors contributing to the other income of the Group is disclosed in note 5 of the financial statements as disclosed in this announcement.

Impairment losses

Impairment losses of the Group for the year ended 31 December 2018 was approximately RMB26.5 million (2017: approximately RMB68.3 million), which mainly represents the impairment losses on loans to third parties and impairment losses on the value added tax refundable on the e-Commerce business segment.

Selling and distribution expenses

Selling and distribution expenses of the Group for the year ended 31 December 2018 increased to approximately RMB113.1 million (2017: approximately RMB48.3 million). The increase was mainly due to the increase in sales and promoting activities for "Changyou" platform in 2018, including the marketing expenses to attract and maintain customers' loyalty and their participation and consumption of the products and services provided on the "Changyou" platform.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2018 decreased to approximately RMB85.8 million (2017: approximately RMB113.4 million). The decrease was mainly attributable to the cessation of the operation of e-Commerce business since 30 June 2018 and disposal of axle business in April 2017.

Research and development costs

Research and development costs of the Group for the year ended 31 December 2018 decreased to approximately RMB49.3 million (2017: approximately RMB54.2 million). The research and development costs were relatively stable in 2018.

Finance income/costs

The Group incurred finance income of approximately RMB17.1 million for the year ended 31 December 2018, while the Group incurred finance cost of approximately RMB4.8 million for the year ended 31 December 2017. The finance income was mainly attributable to the increase in the net foreign exchange gain of approximately RMB1.5 million (2017: net foreign exchange loss approximately RMB16.0 million), the decrease in total borrowing costs of approximately RMB11.4 million for the year ended 31 December 2018 (2017: approximately RMB19.3 million) and net off with the decrease in fair value on the derivative components of the Convertible Bonds (as defined below) of approximately RMB26.4 million (2017: approximately RMB32.4 million),.

Taxation

No income tax expenses was recorded for the year ended 31 December 2018 (2017: income tax credit of approximately RMB47.2 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, cash and cash equivalents of the Group were approximately RMB97.4 million (as at 31 December 2017: approximately RMB393.0 million). As compared to 2017, cash and cash equivalents decreased by approximately RMB295.6 million, mainly due to net cash outflow arising from operating activities of approximately RMB245.8 million (2017: approximately RMB150.7 million), net cash outflow arising from investing activities of approximately RMB25.7 million (2017: approximately RMB38.4 million) and net cash outflow from financing activities of approximately RMB30.1 million (2017: net cash inflow of approximately RMB512.1 million).

Convertible Bonds

On 7 December 2017, the Company and Chance Talent Management Limited ("**Chance Talent**") entered into a subscription agreement, pursuant to which the Company shall issue US$10 million 13% secured convertible bonds ("**convertible Bonds**") to Chance Talent Management Limited ("**Chance Talent**"), an indirect wholly-owned special purpose vehicle of CCB International (Holding) Limited. The Convertible Bonds bear interest at 13% per annum and will mature on 3 June 2019. The issuance of Convertible Bonds was completed on 20 December 2017. The US$10 million payable by Chance Talent for the subscription of the convertible bonds was satisfied by way of off-setting the aggregate outstanding amount of US$10 million payable by the Company under the previous convertible bonds issued by the Company to Chance Talent in June 2015. Accordingly, no proceeds arose from the issue of the Convertible Bonds. During the year ended 31 December 2018, the Company partially redeemed the Convertible Bonds in the aggregate amount of US$3.3 million. The total outstanding Convertible Bonds as at 31 December 2018 was US$6.7 million.

Placing

On 12 December 2016, the Company entered into a placing agreement with a placing agent, pursuant to which the Company agreed to place, through the placing agent, a maximum of 291,218,000 shares of the Company to independent placees at a price of HK$1.98 per share (the "**Placing**"). As at 31 December 2018, the actual use of the proceeds from the Placing, which was completed on 6 January 2017, was as follows:

Usage	Original use of the proceeds from the Placing *(approximate)* *RMB (million)*	Revised use of the proceeds from the Placing (as previously disclosed in the annual report of the Company for the year ended 31 December 2017) *(approximate)* *RMB (million)*	Actual use of the proceeds from the Placing since 6 January 2017, being the date of completion of the Placing *(approximate)* *RMB (million)*
To fund the general working capital of the Company other than the Digital Point business for the year ended 31 December 2017	53	53	53
To fund the Company's subscription of 50.1% in the issued share capital of Treasure Ease Holdings Limited	40	40	40
To partially fund the working capital requirement for operating the Digital Point business for the year ended 31 December 2017, which includes (a) capital expenditure (such as acquisition of information system hardware, software, establishment of technological platform and construction of engine rooms); and (b) operating expense requirement (such as marketing expenses, human resources expenses and office rent)	31	76	76
To fund (a) the capital expenditure for the year ended 31 December 2018; and (b) the operating expense for developing and operating the Changyou Digital Point Business Ecosystem Alliance business *(Note)*	377	229	221
For interest-bearing instrument to allow flexibility in the Company's financial and treasury management	–	47	47
To fund the repurchase of shares of the Company	–	9	9
For the repayment of secured loan	–	47	47
Total	501	501	493

Note:

The detailed breakdown for the capital expenditure for the financial year ended 31 December 2018 and the operating expense for developing and operating the Digital Point business are as follows:

Usage	Revised use of the proceeds from the Placing (as previously disclosed in the announcement of the Company dated 22 August 2018) *(approximate) RMB (million)*	Actual use of the proceeds from the Placing since 6 January 2017 *(approximate) RMB (million)*
To fund the fixed expenses (comprising salaries and other administrative expenses) for the recruitment and retention of personnel and management and for the development of the "Changyou" platform for the year ended 31 December 2018	120	120
To fund promotional and marketing activities to attract and maintain customers' loyalty and their participation and consumption of the products and services provided on the "Changyou" platform for the year ended 31 December 2018	104	97
To fund the capital expenditure of the Digital Point business for the year ended 31 December 2018	5	4
Total	229	221

Update on the use of proceeds from the Placing

The total balance of the unutilised proceeds from the Placing was approximately RMB8 million as at 31 December 2018 ("**Unutilised Proceeds**"). The Group intends that the Unutilised Proceeds will be substantially used to fund the continued development and operations of the Digital Point business of the Group for the year ending 31 December 2019 as follows:

Intended Use and Expected Timeline	**Amount of the Unutilised Proceeds as at 31 December 2018** *(approximate) RMB (million)*
To fund promotional and marketing activities to attract and maintain customers' loyalty and their participation and consumption of the products and services provided on the "Changyou" platform for the year ending 31 December 2019	7
To fund the capital expenditure of the Digital Point business of the Group for the year ending 31 December 2019	1
Total	8

Issue of Warrants

On 26 March 2018, the Company and Century Investment (Holding) Limited ("**CIH**"), the substantial shareholder of the Company, entered into a subscription agreement, pursuant to which the Company shall issue 298,000,000 warrants ("**Warrants**") to CIH at a subscription price of HK$0.01 per Warrant. The Company received the subscription price of HK$2,980,000. The Warrants were issued on 18 September 2018. The net proceeds from the issue of Warrants of approximately HK$1,480,000 was fully utilised for the development of the "Changyou" platform during the year ended 31 December 2018. None of the Warrants were exercised during the year ended 31 December 2018.

Share options

On 7 August 2018, the Company granted 72,000,000 share options to Cheng Jerome, the chairman and an executive director of the Company. No option was exercised during the year ended 31 December 2018.

Net assets

As at 31 December 2018, net current assets of the Group amounted to approximately RMB80.1 million (as at 31 December 2017: approximately RMB408.7 million). As at 31 December 2018, the current ratio (being total current assets divided by total current liabilities) of the Group was approximately 1.91 (as at 31 December 2017: approximately 12.99).

As at 31 December 2018, total assets of the Group were approximately RMB177.4 million (as at 31 December 2017: approximately RMB451.6 million) and total liabilities were approximately RMB87.9 million (31 December 2017: approximately RMB119.2 million). The debt ratio as at 31 December 2018 (being total liabilities divided by total assets) was 0.50 as compared to 0.26 as at 31 December 2017.

Borrowings

As at 31 December 2018, the Group had total borrowings (which consisted of convertible bonds) of approximately RMB44.4 million (as at 31 December 2017: approximately RMB85.1 million). The gearing ratio as at 31 December 2018 (being total borrowing divided by total equity) was approximately 0.50 (as at 31 December 2017: approximately 0.26).

Trade and other receivables

Trade and other receivables of the Group as at 31 December 2018 were approximately RMB67.1 million (as at 31 December 2017: approximately RMB49.6 million). The increased in the balance was mainly due to the increased in trade receivables of the Group. A detailed breakdown of the factors contributing to the trade and other receivables of the Group is disclosed in note 12 of the financial statements as disclosed in this announcement.

Inventories

The inventory balance of the Group as at 31 December 2018 was approximately RMB0.48 million (as at 31 December 2017: approximately RMB0.09 million). The Digital Points business and the e-Commerce business of the Group required minimal inventory level.

Trade and other payables

Trade and other payables of the Group as at 31 December 2018 were approximately RMB43.5 million (as at 31 December 2017: approximately RMB34.1 million). The increase was mainly due to increased in trade payable of the Group. A detailed breakdown of the factors contributing to the trade and other payables of the Group is disclosed in note 14 of the financial statements as disclosed in this announcement.

Pledged assets

As at 31 December 2018, the Group did not have pledged assets (as at 31 December 2017: Nil).

Contingent liabilities

As at 31 December 2018, the Group had no significant contingent liabilities (as at 31 December 2017: Nil).

Capital commitment

As at 31 December 2018, the Group had no contracted capital commitments which were not provided in the financial statements (as at 31 December 2017: Nil).

Employees and remuneration policy

As at 31 December 2018, the Group had 303 employees (as at 31 December 2017: 283 employees). For the year ended 31 December 2018, total staff costs were approximately RMB133.5 million (2017: approximately RMB87.1 million).

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

Foreign exchange risk

The business of the Group is mainly located in the PRC and most of the transactions are denominated in Renminbi. Most of the assets and liabilities of the Group are computed in Renminbi. As at 31 December 2018, the Group's net foreign currency liabilities amounted to approximately RMB37.2 million (as at 31 December 2017: net foreign currency assets of approximately RMB183.3 million). During the year ended 31 December 2018, the Group did not utilise any future contracts, currency borrowings and otherwise to hedge against its foreign exchange risk. However, the Group will continue to monitor the risk exposures and will consider to hedge against material currency risk if required.

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

There were no significant investments held nor material acquisitions or disposals of subsidiaries during the year ended 31 December 2018 and there was no plan authorised by the Board for other material investments or additions of capital assets as at the date of this announcement.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

On 20 December 2017, the Company issued the Convertible Bonds with face value of US$10 million to Chance Talent. The Convertible Bonds bear interest at 13% per annum and will mature on 3 June 2019. As at 31 December 2018, the Convertible Bonds with face value of US$6.7 million were still outstanding. As at the date of this announcement, Century Investment (Holding) Limited pledged its 154,691,176 ordinary shares in the Company (the "**Charged Shares**") in favour of Chance Talent to secure the obligation of the Company under the Convertible Bonds. The Charged Shares represent approximately 8.54% of the issued share capital of the Company as at the date of this announcement.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

PROSPECTS

In 2019, the Group will continue to focus on (i) the continual development of the four consumption scenarios of the Changyou platform, namely retail, games and entertainment, travel and related services and finance services; (ii) the implementation and promotion of the digital equity asset trading business in relation to the Changyou platform, in particular to promote the "dual-aspect" development of the expansion and enhancement of the source of and access to digital points and the variety of consumption scenarios; and (iii) the development of value-added business models, namely the advertisement, big data usage and blockchain technology and loan services in order to realise the securitisation of assets of shareholders and partners of the Changyou Alliance to create a global platform for the issuance, circulation, payment, trading, settlement and storage of securitised assets.

Retail

The Group currently offers the sale and purchase of merchandise on the Changyou platform, including physical goods and virtual assets such as electronic gift cards and coupons. As the retail segment is a fundamental business unit of the Changyou platform, the Group aims to further enrich the categories of products and services available for its platform users.

Games and Entertainment

The Group will continue to create different and distinctive content to attract more users to the Changyou platform. In addition to optimising its self-developed mini games, the Group will also introduce high-quality games from other developers into the Changyou platform by way of acquisition or collaborative development with such developers.

Travel and Related Services

The Group is currently in collaboration with its business partners in the Changyou Alliance and provides services such as flight reservations, hotel bookings, bookings for tourist attractions and other services on the Changyou platform. The Group aims to collaborate with other online travel service providers and related service providers to widen the variety of travel and related services offered on the Changyou platform.

Finance Services

The Group collaborates with its business partners and third party payment service providers in order to include different forms of integrated payment services on the Changyou platform. At the same time, the Group will continue to diversify the types of insurance, investment and other financial products recommended to Changyou platform users.

Digital asset trading business

The Group is vigorously developing its digital asset trading business. Through cooperation with multipurpose card issuers, payment institutions and technology companies and other business resources, the Group aims to create a consumer-to-consumer ("**C2C**") trading platform where consumers are free to trade in various equity assets, thereby greatly enhancing the liquidity of digital card vouchers and membership rights to meet the demands of end users and promotes the "dual-aspect" development of the source of and access to digital points and the expansion and enhancement of consumption scenarios. The trading platform business has also created a new business model for merchants to expand their markets and find its target users while reducing costs.

Value-added services

The Group will rely on the activities and transactions of the exchange of digital points by users of Changyou platform to (i) obtain information on consumer behaviour and attributes to maximise the revenue from the value-added services; (ii) utilise the comprehensive mass data of the trading platform and consumption scenarios for precision marketing and combine user attributes and transaction big data to accurately target the characteristics and appeals of platform users and provide advertising space for merchants with one-stop online advertising solutions to develop precise and creative strategies and monitor its effects through data analysis, etc.; and (iii) use the trading platform and consumption scenarios to discover user funding needs and match different risk level users to relevant and suitable capital cost products and institutions.

The Group endeavours to create a digital points commercial ecosystem which will make a significant impact and become one of the leading companies to bring commercial transactions into an era of intelligent internet.

CORPORATE GOVERNANCE PRACTICES

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

During the year ended 31 December 2018, the Company had complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"), save for the deviation as set forth below:

Code Provision A.6.7

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and non-executive directors should attend general meetings of the Company. Mrs. Guo Yan, Mr. Liu Jialin and Mr. Chan Chi Keung, Alan were not able to attend the annual general meeting of the Company held on 29 May 2018 due to their other engagement in other commitments. Mrs. Guo Yan was not able to attend the extraordinary general meeting of the Company held on 7 August 2018 due to her other engagement in other commitments.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Tuesday, 28 May 2019. A notice convening the annual general meeting will be published and despatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 23 May 2019 to Tuesday, 28 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to determine who are entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Tuesday, 28 May 2019, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 27 May 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2018, the Company bought back a total of 2,556,000 shares of the Company in May and June 2018 under the general mandate granted to the Directors in the annual general meetings of the Company held on 29 May 2017 and 29 May 2018, respectively. As at the date of this announcement, all the repurchased shares had been cancelled. The total consideration paid to buy back these shares was approximately HK$2.3 million. Details of those transactions are as follows:

Month of buy-back	Number of shares bought back	Price per share Highest	Price per share Lowest	Aggregate price
		HK$	*HK$*	*HK$*
May	715,000	1.02	0.98	717,980
June	1,841,000	1.07	0.71	1,615,800

Save for the share repurchases as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the shares of the Company during the year ended 31 December 2018.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Specific enquiries have been made with all Directors, and each Director has declared and confirmed that, during the year ended 31 December 2018, they were in compliance with the Model Code.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group, the selection and appointment of the external auditors and the effectiveness of the systems of risk management and internal control of the Group.

PUBLICATION OF RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fortunetecomm.com. The annual report of the Company for the year ended 31 December 2018 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and published on the above websites in due course.

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

Hong Kong, 15 March 2019

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