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 2018

The Board is pleased to announce the consolidated annual results of the Group for the year ended 31 December 2018, together with the comparative information for the year ended 31 December 2017.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the year ended 31 December		
	2018	2017	**Change%**
	(RMB'000)	*(RMB'000)*	
Revenue	**83,250**	131,697	(36.8)
Gross profit	**23,771**	92,854	(74.4)
Loss before tax	**(117,192)**	(389,635)	(69.9)
Loss after tax	**(119,460)**	(388,780)	(69.3)
Loss for the year attributable to owners of the parent	**(107,508)**	(377,455)	(71.5)
Non-IFRSs Measures			
– Adjusted net loss attributable to owners of the parent (unaudited)[1]	**(94,097)**	(45,152)	108.4
LOSS PER SHARE ATTIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and Diluted	**RMB(0.07)**	RMB(0.24)	

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Overview

After recording continuous robust growth over the past few years, China's online game industry started to slow down in 2018. 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 Gamma Data (伽馬數據), the total revenue of China's online game industry for 2018 was RMB214.4 billion, an increase of 5.3% year-over-year, as compared with double-digit growth over the previous years. Revenue from mobile games increased by 15.4% year-over-year to RMB134.0 billion in 2018, making up 62.5% of total industry revenue. The total user base of China's online games rose 7.3% year-over-year to 626 million.

China's online game industry faced unprecedented challenges starting in March 2018, when the Chinese government froze new game approvals for domestic publication until late-December 2018. Inevitably, the freeze on new game approvals negatively impacted the financial performance of game developers and operators in 2018.

For the year ended 31 December 2018, the Group generated total revenue of approximately RMB83.3 million, representing a year-over-year decrease of 36.8%. Net loss attributable to owners of the parent was approximately RMB107.5 million, compared with approximately RMB377.5 million for 2017, representing a year-over-year decrease of 71.5%. Adjusted net loss attributable to owners of the parent was approximately RMB94.1 million, compared with RMB45.2 million for 2017. The year-over-year decrease in total revenue was primarily due to: (i) a decrease in revenue from the Group's existing games as they reached the later stages of their respective lifecycles; (ii) the delayed launch of several new games as a result of the Company's strategic decision to further extend their development time to enhance quality and due to the above-mentioned months-long freeze on new game approvals; (iii) the diversification of game categories currently under development which requires additional time to recruit and establish research and development ("**R&D**") teams; (iv) the early stage of the Company's HTML5 games that have been developed and launched; the Company has primarily been focusing on increasing user base of these games rather than generating revenue. The decrease in the net loss attributable to owners of the parent was primarily because the Company booked a goodwill impairment loss of RMB300.1 million in 2017, which related to the Company's acquisition of Kailuo Tianxia in 2013, while no such impairment was made in 2018.

The Company's launch schedule for new games was constrained in 2018 due to the approval freeze mentioned above. During the year, the Company was able to launch 5 games. The mobile version of *I Am the Hero* (英雄就是我) was released with Tencent in August 2018 following the game's successful launch on Steam in 2017.

Also in August, the Company released the iOS version of *Demon Tower* (魔界塔), which was recommended by Apple on its home page for games in the China App Store and ranked number 2 on its list of paid games.

In November 2018, the Company launched *I Am the Hero* (英雄就是我) on Switch in Japan, Europe and the United States.

In terms of Intellectual property (IP) licensing, the Company made encouraging progress in 2018. In June 2018, the Company licensed Abo (阿波), the main character in the *Carrot Fantasy* (保衛蘿蔔) series, to Sohu, one of the leading internet companies in China, for the second season of its self-made online drama Your Highness (拜見宮主大人). In addition, the Company authorized Happy Creative Advertisement Co., Ltd. (佛山市樂創廣告有限公司) to host *Carrot Fantasy* (保衛蘿蔔)-themed events at the Perennial Jihua Mall in Foshan from 14 July to 30 September 2018 as a part of their promotion to increase traffic during the summer holiday season. In December 2018, the Company licensed Qing Ma Publishing Co., Ltd. (青馬文化事業出版有限公司) to use images from *Carrot Fantasy* (保衛蘿蔔) for their comics that are sold in the Hong Kong market.

*Investment in Global OW Technology Co., Limited ("**Global OW**")*

During the first half of 2018, the Company entered into an agreement to make an investment of RMB20.0 million into Global OW, a private limited company incorporated in Hong Kong, which holds a 97.132% equity stake in Etranss Remittance International Corp. ("**Etranss**"). Etranss is one of the few cryptocurrency exchanges approved by Bangko Sentral ng Pilipinas (BSP), the Philippine central bank. With the closing of the investment, the Company will own a 20.0% equity stake in Global OW. As at 31 December 2018, approximately RMB10.0 million had been paid.

Loan Facility of up to RMB120 million

On 13 July 2018, the Group was notified by the Chengjian sub-branch of the Industrial and Commercial Bank of China Xiamen Branch (the "**Lender**") that it agreed to provide a loan facility (the "**Loan Facility**") up to RMB120 million to Xiamen Fei Xiang Yue Investment Management Co., Ltd. (the "**Borrower**"), an indirect wholly-owned subsidiary of the Company. The Loan Facility has a repayment term of 10 years at a minimum interest rate to be determined with reference to the loan prime rate as at the drawdown date plus a rate of 0.737% per annum which is payable on a monthly basis. The principal of the loan shall be repaid through installments as agreed between the Lender and the Borrower after a maximum two-year grace period. The Group intends to apply the Loan Facility for the construction of the Company's R&D center on land located in Huli District, Xiamen, the PRC (the "**Land**") as disclosed in the Company's announcement dated 21 July 2016. The R&D center's main structure has been completed on 8 January 2019.

Disposal of 4.34% Equity Interest in Tap Tap

On 21 June 2018, the Company, through Xiamen Youli, entered into a capital injection agreement (the "**Capital Injection Agreement**") as one of the then existing shareholders and one of the then investors in Ewan, a company primarily engaged in developing and operating the popular mobile game distribution platform, TapTap. Under the terms of the Capital Injection Agreement, Xiamen Youli would inject a further RMB4.54 million in cash into Ewan, following the previous investment of RMB50.0 million in May 2017. Upon completion of the Capital Injection Agreement on 3 September 2018, Xiamen Youli's equity interest in Ewan decreased from 4.54% to 4.34%.

Subsequent to the year ended 31 December 2018, Xiamen Youli as a seller entered into share purchase agreements with XD and Xiamen Geecap respectively on 31 January 2019, pursuant to which Xiamen Youli agreed to dispose of, and XD and Xiamen Geecap agreed to acquire, an aggregate 4.34% equity interest in Ewan (representing the entire equity interest held by Xiamen Youli in Ewan) for a total cash consideration of RMB108,500,000. Upon completion, Xiamen Youli will no longer hold any interest in Ewan. This disposal provides an opportunity for the Group to realise the return on its investment in Ewan to strengthen the Group's liquidity to further enhance and develop the core businesses of the Group. For details, please refer to the Company's announcement dated 31 January 2019.

Termination of Exclusive Licensing Agreement with Meitu Networks

Xiamen Youli and Meitu Networks entered into an exclusive licensing agreement in relation to, among others, the operation, development and management of the game businesses for Meitu Networks on 21 March 2018. Considering the Group's future strategic direction and current market environment of game distribution platform, after due and careful consideration and through negotiations on a friendly basis, on 21 February 2019, Xiamen Youli and Meitu Networks mutually agreed not to continue with the cooperation and entered into a termination agreement to terminate the cooperation contemplated under the exclusive licensing agreement. For details, please refer to the Company's announcements dated 21 and 22 February 2019.

Principal risks relating to our business

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

- We are required to comply with new policies or any amendment to current policies in relation to the game industry, which may affect our business operations;

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

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

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

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

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

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

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

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

- We set up a user experience department and committed to tracking and responding 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 monetisation of our games;

- We closely monitor the progress of our pipeline games;

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

- To keep pace with the market, we brought on board new talent to keep the competitiveness of our R&D teams; and

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

Outlook for 2019

In 2019, the Company plans to strengthen its core business and leverage its library of well-known IP to tackle the challenges that lie ahead. In February 2019, the Company launched the Android version of *Peace in Chang An* (天下長安), a 3D ARPG mobile game based on IP that was licensed from a TV series of the same name and *Kung Fu Da Huang Dou* (功夫大黃豆), a 3D RPG mobile game based on IP that was licensed from a Chinoiserie animated movie named TOFU. The Company has a number of games under development in its pipeline covering different genres, target users and market regions and plans to launch a number of new games in 2019 including *Carrot Fantasy* (保衛蘿蔔) series and the sequel to *San Guo Zhi Ren* (三國之刃). In addition, the Company's publishing team will introduce appealing games by working with other game developers that have mastered different game genres.

On the IP licensing front, the Company will continue to explore other opportunities that leverage IP from the Company's world-class *Carrot Fantasy* (保衛蘿蔔) game to broaden exposure for the brand and generate returns for the Company.

FINANCIAL REVIEW

Operating Information

Our Games

In 2018, we continued to focus on developing high quality mobile games, HTML5 Games and PC games to meet the constantly changing demand of gamers despite the intense competition in the game industry, and on strengthening our game distribution capabilities. During the year ended 31 December 2018, the Group launched 2 RPG games named *Shou Hua San Guo* (獸化三國) and *Demon Tower* (魔界塔), 1 PC game, named *The Initial II* (初體計劃2), and 1 HTML5 game, named *Carrot Defense* (保衛蘿蔔), on Facebook Messenger. The Group also launched the mobile version of *I am a Hero* (英雄就是我) in 2018 which has 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			
	2018		2017	
	(RMB'000)	***(% of Total Revenue)***	*(RMB'000)*	*(% of Total Revenue)*
Game Operation				
Web games	**15,209**	**18.3**	15,850	12.0
Mobile games				
RPGs	**45,161**	**54.2**	86,439	65.6
Casual	**5,853**	**7.0**	7,320	5.6
PC games	**871**	**1.1**	3,233	2.5
H5 games	**1,856**	**2.2**	–	–
Total	**68,950**	**82.8**	112,842	85.7

Revenue from game operations as a percentage of total revenue decreased from approximately 85.7% in 2017 to approximately 82.8% in 2018. The contribution of RPG mobile games to total revenue decreased from approximately 65.6% in 2017 to approximately 54.2% in 2018. The decreases were primarily due to the decline in revenue from our existing RPG games as they reached the later stages of their respective lifecycles.

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 monetisation 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 2018, (i) our RPG mobile games and web games had approximately 225.1 million cumulative registered users, composed of approximately 171.3 million users for web games and approximately 53.8 million users for mobile games; (ii) our casual games had approximately 521.2 million cumulative activated downloads; (iii) our PC games had approximately 0.3 million cumulative activated downloads; and (iv) our HTML5 game had approximately 31.3 million cumulative registered users. For the month of December 2018, our RPG mobile games and web games had approximately 0.5 million MAUs in aggregate, composed of approximately 0.2 million MAUs for mobile games and approximately 0.3 million MAUs for web games; (ii) our casual games had approximately 5.0 million MAUs; and (iii) our H5 game had approximately 0.1 million MAUs.

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

	For the year ended 31 December		
	2018	2017	**Change%**
Average MPUs			
Web games (RPGs) (000's)	**10**	15	(33.3)
Mobile games (RPGs) (000's)	**51**	67	(23.9)
Casual (000's)	**110**	120	(8.3)
ARPPU			
Web games (RPGs) (RMB)	**121.6**	90.3	34.7
Mobile games (RPGs) (RMB)	**96.6**	134.9	(28.4)
Casual (RMB)	**4.4**	5.6	(21.4)

Note:

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

Average MPUs for mobile casual games decreased slightly from approximately 120,000 for the year ended 31 December 2017 to approximately 110,000 for the year ended 31 December 2018, primarily attributable to the decrease in the average MPUs for the *Carrot Fantasy* (保衛蘿蔔) game series, which have reached the later stages of their expected lifecycles in 2017. Average MPUs for mobile RPG games decreased from approximately 67,000 for the year ended 31 December 2017 to approximately 51,000 for the year ended 31 December 2018, primarily due to *San Guo Zhi Ren* (三國之刃), one of our hit titles, entering the later stage of its lifecycle since 2017. MPUs for web games were approximately 10,000 for the year ended 31 December 2018 compared with approximately 15,000 for the year ended 31 December 2017. The decrease was due to the fact that our web games reached the later stages of their expected lifecycles, as well as our strategic focus shifted from web games to mobile games since 2013.

ARPPU for web games increased from approximately RMB90.3 for the year ended 31 December 2017 to approximately RMB121.6 for the year ended 31 December 2018, primarily driven by an increase in ARPPU for the web version of *Shen Xian Dao* (神仙道) and *Da Hua Shen Xian* (大話神仙), which have entered the mature stages of their expected lifecycle when loyal players are willing to spend more. ARPPU for RPG mobile games decreased from approximately RMB134.9 for the year ended 31 December 2017 to approximately RMB96.6 for the year ended 31 December 2018 due to the decline in ARPPU from our RPG mobile game *San Guo Zhi Ren* (三國之刃), which have begun to reach the later stage of its expected lifecycle since 2017. The newly launched RPG game *Demon Tower* (魔界塔) which is a casual style RPG game with lower ARPPU also lowered our ARPPU for RPG mobile games. ARPPU for casual games decreased from approximately RMB5.6 for the year ended 31 December 2017 to approximately RMB4.4 for the year ended 31 December 2018. The decrease was primarily due to a decrease in ARPPU from the Carrot Fantasy game series.

As part of our business strategies, we continue to launch various in-game promotions and activities, release regular updates for our premium games, and offer high-quality customer services, in order to enhance the features of our games and to maintain user interest, which we believe played a significant role in retaining our players and expanding our player base.

The year ended 31 December 2018 compared to the year ended 31 December 2017

The following table sets forth the income statement of our Group for the year ended 31 December 2018 compared with the year ended 31 December 2017.

	For the year ended 31 December		
	2018	2017	**Change %**
	(RMB'000)	*(RMB'000)*	
Revenue	**83,250**	131,697	(36.8)
Cost of sales	**(59,479)**	(38,843)	53.1
Gross profit	**23,771**	92,854	(74.4)
Other income and gains	**33,488**	29,865	12.1
Selling and distribution expenses	**(10,629)**	(40,099)	(73.5)
Administrative expenses	**(60,207)**	(64,327)	(6.4)
Research and development costs	**(93,633)**	(93,701)	(0.1)
Finance costs	**(1,904)**	(1,333)	42.8
Other expenses	**(5,179)**	(312,676)	(98.3)
Share of losses of associates	**(2,899)**	(218)	1229.8
LOSS BEFORE TAX	**(117,192)**	(389,635)	(69.9)
Income tax (expense)/credit	**(2,268)**	855	(365.3)
LOSS FOR THE YEAR	**(119,460)**	(388,780)	(69.3)
Attributable to:			
Owners of the parent	**(107,508)**	(377,455)	(71.5)
Non-controlling interests	**(11,952)**	(11,325)	5.5

Revenue

The following table sets forth a breakdown of our revenue for the years ended 31 December 2018 and 2017:

	For the year ended 31 December			
	2018		2017	
	(RMB'000)	***(% of Total Revenue)***	*(RMB'000)*	*(% of Total Revenue)*
Game Operation	**68,950**	**82.8**	112,842	85.7
Online game distribution	**940**	**1.1**	2,916	2.2
Licensing and IP-related income	**6,889**	**8.3**	9,698	7.4
Advertising revenue	**6,169**	**7.4**	5,980	4.5
Technical service income	**302**	**0.4**	261	0.2
Total	**83,250**	**100.0**	131,697	100.0

Total revenue decreased by approximately 36.8% to approximately RMB83.3 million for the year ended 31 December 2018 from the year ended 31 December 2017.

Game operation revenue decreased by approximately 38.9% to approximately RMB69.0 million for the year ended 31 December 2018 from the year ended 31 December 2017. The decrease was primarily due to *San Guo Zhi Ren* (三國之刃) hitting the late stage of its lifecycle since 2017. The decrease was also due to *Sprites Legend* (靈妖記－神仙道外傳) reaching the later stage of its lifecycle in early-2018. The decrease in revenue from our other existing games also dragged down our total revenue as the games reached the mature stages of their respective product lifecycles. In addition, the decrease was also due to (i) a delay in the launch of our new key games as a result of the approval freeze; (ii) the Group's strategic decision to invest additional development time and resources to enhance the quality of such games; and (iii) the change in new product strategy, such as developing HTML5 games, in order to capture market opportunities. In addition, there was an immaterial revenue contribution from the PC and HTML5 games launched in 2018, and the Company's newly launched RPG games also underperformed in 2018.

Revenue from online game distribution decreased by approximately 67.8% to RMB0.9 million for the year ended 31 December 2018 from the year ended 31 December 2017. The decline was primarily because the games launched by the Company's overseas game distribution and operation team entered the mature stage of their lifecycle.

Licensing and IP-related income decreased by approximately 29.0% to approximately RMB6.9 million for the year ended 31 December 2018 from the year ended 31 December 2017. The decrease was primarily attributable to the recognition of a one-off licensing fees for the Southeast Asian version of *San Guo Zhi Ren* (三國之刃) of approximately RMB1.1 million upon termination of its operation in the Southeast Asia Region for the year ended 31 December 2017. There was no such one-off licensing fees recognised for the year ended 31 December 2018. The decrease was also due to a reduction in licensing fees for the web version of *Shen Xian Dao* (神仙道) under the renewed licensing agreement in May 2017, as a result of the game reaching the later stage of its lifecycle.

Advertising revenue increased slightly from approximately RMB6.0 million for the year ended 31 December 2017 to approximately RMB6.2 million for the year ended 31 December 2018. This rise was primarily attributable to the contribution of advertising revenue from *Carrot Fantasy* for WeChat (保衛蘿蔔－迅玩版), which was introduced together with mini games on WeChat in December 2017.

Technical service income of approximately RMB302,000 for the year ended 31 December 2018 was mainly generated by the provision of technical support services by our technical department.

Cost of sales

Our cost of sales increased by approximately 53.1% from approximately RMB38.8 million for the year ended 31 December 2017 to approximately RMB59.5 million for the year ended 31 December 2018. The increase was primarily due to the recognition of costs associated with the operation of Meitu's game distribution platforms of approximately RMB14.5 million for the year ended 31 December 2018 while there was no such cost recognised for the year ended 31 December 2017. The Group entered into an exclusive licensing agreement with Meitu Networks to operate, develop and manage Meitu Network's game businesses in late-March, 2018. Considering the Group's future strategic direction and current market environment of game distribution platform, after due and careful consideration and through negotiations on a friendly basis, on 21 February 2019, the Group and Meitu Networks mutually agreed not to continue with the cooperation and entered into an agreement to terminate the cooperation contemplated under the exclusive licensing agreement. There was no material revenue generated during the cooperation period in 2018. The increase in our cost of sales was also attributable to an increase in employee costs from approximately RMB24.7 million for the year ended 31 December 2017 to approximately RMB28.9 million for the year ended 31 December 2018, associated with the establishment of our Shenzhen game distribution and operation team in the second half of 2017. In addition, the increase was also due to the recognition of approximately RMB4.1 million of costs for the year ended 31 December 2018 associated with the share options granted in the second half of 2017 to a key management member who is responsible for the operation of our web and mobile games while there was no such cost for the year ended 31 December 2017.

Gross profit and gross profit margin

Gross profit decreased by approximately 74.4% from approximately RMB92.9 million for the year ended 31 December 2017 to approximately RMB23.8 million for the year ended 31 December 2018. Our gross profit margin for the year ended 31 December 2018 was 28.6% compared with 70.5% for the year ended 31 December 2017.

Other income and gains

Our other income and gains increased by approximately 12.1% from approximately RMB29.9 million for the year ended 31 December 2017 to approximately RMB33.5 million for the year ended 31 December 2018, primarily due to an increase in investment income from approximately RMB3.8 million for the year ended 31 December 2017 to approximately RMB10.9 million for the year ended 31 December 2018 which was attributable to the recognition of gain on fair value change of our debt investments at fair value through profit or loss. The increase was partially offset by a decrease in government grants from approximately RMB14.2 million for the year ended 31 December 2017 to approximately RMB13.1 million for the year ended 31 December 2018 as the government grants are in connection with the Group's financial performance. The increase in other income and gains was also partially offset by the decrease in bond interest income from approximately RMB8.1 million for the year ended 31 December 2017 to approximately RMB6.0 million for the year ended 31 December 2018, which was mainly due to a decrease in the balance of bond investments following the disposal of bonds in 2018 to invest in the equity investments and to support the construction of our R&D center and headquarters.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 73.5% from approximately RMB40.1 million for the year ended 31 December 2017 to approximately RMB10.6 million for the year ended 31 December 2018. The decrease was mainly attributable to a decrease in advertising fees from approximately RMB26.8 million for year ended 31 December 2017 to approximately RMB5.1 million for the year ended 31 December 2018, primarily due to the decreased number of promotional activities for *Sprites Legend* (靈妖記－神仙道外傳) in 2018 as the Company tried to revive interest in the game since its launch in the second half of 2017 which did not perform up to expectations. The decrease in the advertising fees was also due to the decreased number of promotional activities for the Company's other self-distributed and operated games. In addition, the decrease in selling and distribution expense was also attributable to a decrease in channel fees from approximately RMB11.4 million for year ended 31 December 2017 to approximately RMB3.3 million for the year ended 31 December 2018, as games distributed and operated by ourselves entered a mature stage of their respective lifecycles.

Administrative expenses

Our administrative expenses decreased by approximately 6.4% from approximately RMB64.3 million for the year ended 31 December 2017 to approximately RMB60.2 million for the year ended 31 December 2018. The decrease was primarily attributable to a decline in the costs related to share options granted in November 2014 from approximately RMB9.5 million for the year ended 31 December 2017 to approximately RMB4.7 million for the year ended 31 December 2018.

Research and development costs

Our R&D costs remained stable, recording at approximately RMB93.7 million for the year ended 31 December 2017 as compared with approximately RMB93.6 million for the year ended 31 December 2018.

Finance costs

Finance costs primarily consisted of interest expenses on time loans taken out by the Company as financial leverage for life insurance policies and general working capital. Finance costs increased by approximately 42.8% from approximately RMB1.3 million for the year ended 31 December 2017 to approximately RMB1.9 million for the year ended 31 December 2018 primarily due to higher interest rates and the appreciation of the HKD against RMB.

Other expenses

Our other expenses decreased significantly by approximately 98.3% from approximately RMB312.7 million for the year ended 31 December 2017 to approximately RMB5.2 million for the year ended 31 December 2018. The decrease was primarily attributable to a goodwill impairment loss of approximately RMB300.1 million related to the Company's acquisition of Kailuo Tianxia in 2013 as disclosed in the Prospectus made in 2017 while there was no such impairment made in 2018. The decrease was also attributable to an investment loss of approximately RMB5.8 million recognised during the year ended 31 December 2017 related to the disposal of one of the Company's subsidiaries that was engaged in game development while no such loss was recognised for the year ended 31 December 2018.

Income tax

We recorded an income tax expense of approximately RMB2.3 million for the year ended 31 December 2018, which compared with an income tax credit of approximately RMB0.9 million for the year ended 31 December 2017. The change was mainly attributable to an income tax refund that was received by two subsidiaries of the Company that were profitable and had recognised income tax expense of approximately 5.7 million in total for the year ended 31 December 2016, but were certified in the second half of 2017 to be software enterprises and thus exempted from income tax for the year ended 31 December 2016. There was only a tax refund of approximately RMB0.4 million that was received during the year ended 31 December 2018. The change in income tax expenses was also due to the decrease in revenue and profits from the Company's subsidiaries that were not exempted from income tax.

Loss for the year

As a result of the above, the loss for the year improved by 69.3% from approximately RMB388.8 million for the year ended 31 December 2017 to approximately RMB119.5 million for the year ended 31 December 2018. And the loss attributable to owners of the parent improved by 71.5% from approximately RMB377.5 million for the year ended 31 December 2017 to approximately RMB107.5 million for the year ended 31 December 2018.

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

In addition to our consolidated financial statements which are presented in accordance with IFRSs, we also provide further information based on the adjusted net loss attributable to owners of the parent as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of our business performance. We also believe that these non-IFRSs measures provide additional information to investors and others, helping them 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 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 losses on goodwill and intangible assets recognised for Carrot Fantasy CGU and loss/gain on fair value change of contingent consideration recognised for acquisitions. The term of adjusted net loss attributable to owners of the parent is not defined under IFRSs. The use of adjusted net loss attributable to owners of the parent has material limitations as an analytical tool as it does not include all items that would impact our net loss attributable to owners of the parent for the accounting period.

	For the year ended 31 December		
	2018 *(RMB'000)*	2017 *(RMB'000)*	**Change %**
Loss for the year attributable to owners of the parent	**(107,508)**	(377,455)	(71.5)
Add:			
Share-based compensation	**13,411**	28,133	(52.3)
Amortisation of intangible assets recognised for acquisitions	**–**	3,599	(100.0)
Impairment loss of goodwill and intangible asset recognised for Carrot Fantasy CGU	**–**	300,076	(100.0)
Loss on fair value change of contingent consideration recognised for acquisitions	**–**	495	(100.0)
Total	**(94,097)**	(45,152)	108.4

Financial Position

As at 31 December 2018, total equity of the Group was approximately RMB578.0 million, compared with RMB635.7 million as of 31 December 2017. The decrease was mainly due to the adjusted loss for the year attributable to owners of the parent of approximately RMB94.1 million recognised for the year ended 31 December 2018. The decrease was partially offset by the changes in fair value of the Group's unlisted equity investments of approximately RMB44.3 million recognised in other comprehensive income.

As at 31 December 2018, the Group recorded net current assets of approximately RMB107.7 million, which was flat compared with approximately RMB107.4 million as at 31 December 2017.

Liquidity and Capital Resources

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

	2018 *(RMB'000)*	2017 *(RMB'000)*	**Change %**
Net cash flow used in operating activities	**(121,130)**	(75,819)	59.8
Net cash flow from investing activities	**32,376**	38,280	(15.4)
Net cash flow from/(used in) financing activities	**32,211**	(40,606)	(179.3)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(56,543)**	(78,145)	(27.6)
Cash and cash equivalents at the beginning of year	**155,397**	237,028	(34.4)
Effect of foreign exchange rate changes, net	**6,068**	(3,486)	(274.1)
Cash and cash equivalents at the end of year	**104,922**	155,397	(32.5)

Our total cash and cash equivalent was approximately RMB104.9 million as at 31 December 2018, compared with approximately RMB155.4 million as at 31 December 2017. The decrease was primarily due to the investments in associates and the construction of our R&D center and headquarters.

As at 31 December 2018, approximately RMB41.8 million of our financial resources (31 December 2017: RMB32.8 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 2018, the Group had an aggregate bank loans of approximately RMB93.0 million (31 December 2017: RMB53.5 million), of which approximately RMB83.7 million is repayable within one year and approximately RMB9.3 million is payable after one year but within five years.

As at 31 December 2018, the Group's bank loans included time loans of approximately HK$65.5 million (31 December 2017: HK$64.0 million) with an interest rate of 4.413% which was secured by certain life insurance policies as detailed below, which was used by the Company as financial leverage for the life insurance policies; time loans of HK$30.0 million with an interest rate of 2.683% which was used by the Company as general working capital; and bank loan for the construction of the Company's R&D center of approximately RMB9.3 million with an interest rate of 5.047% which was secured by the land use rights of the Land and the construction-in-progress on the Land.

Significant Debt Investments at Fair Value Through Other Comprehensive Income, Equity Investments Designated at Fair Value Through Other Comprehensive Income, Debt Investments at Fair Value Through Profit or Loss and Available-for-sale ("AFS") Investments Held

As at 31 December 2018, we had debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss of approximately RMB357.9 million (AFS Investments as at 31 December 2017: RMB370.0 million), which represents the straight bonds, convertible bonds and convertible preferred shares issued by banks or reputable companies, with Standard & Poor ("**S&P**") ratings above BB – and coupon rates ranged from 4.25% to 6.5% per annum which were invested by the Company, the investment in life insurance policies by the Company and interests held by the Group in nine unlisted companies and one company listed on the National Equities Exchange And Quotations of the PRC. In August 2015, the Group entered into life insurance policies with an insurance company to insure certain members of the key management of the Group. The Company can terminate the policy at any time and receive the refund based on the surrender value of the contract(s) at the date of withdrawal, which is determined by the insurance premium of each insurance policy plus the accumulated interest earned and minus the insurance costs ("**Surrender Value**"). In addition, if the withdrawal is made between the first and tenth policy years, there is a special amount of surrender 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 rate will be reduced to 2% per annum. The crediting interest rate for the year ended 31 December 2018 was 3.9%.

The principal of the debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss as at 31 December 2018 are not protected. The fair value of debt investments at fair value through other comprehensive income and debt investments at fair value through profit or loss 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 value of the life insurance policies represented the surrender value of such insurance policies which is detailed in the above paragraph. The fair values of unlisted equity investments and debt investments were assessed by independent appraisers or employed other available methods.

Details of the Group's debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss are set out in the section headed "Performance and Future Prospect of Significant Debt Investments at Fair Value Through Other Comprehensive Income, Equity Investments Designated at Fair Value Through Other Comprehensive Income and Debt Investments at Fair Value Through Profit or Loss Held" below.

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

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

Details of the Group's debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss as at 31 December 2018 are presented as follows:

(A) Straight Bonds

Name of the straight bonds	*Notes*	**Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2018** *(RMB'000)*	**Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the for the year ended 31 December 2018** *(RMB'000)*	**Fair value as at 31 December 2018** *(RMB'000)*	**Percentage of total FVOCI and FVPL Investments at 31 December 2018**	**Percentage of total assets of the Group as at 31 December 2018**
Huarong Finance II Co., Ltd. ("**Huarong Finance II**")	*1*	567	50	1,394	0.4%	0.2%
Huarong Finance 2017 Co., Ltd. ("**Huarong Finance 2017**")	*2*	875	(799)	18,847	5.3%	2.4%
Bank of East Asia ("**BEA**")	*3*	840	258	4,835	1.4%	0.6%
Zhongrong International Bond 2015 Limited ("**ZIB 2015**")	*4*	434	–	–	–	–

Notes:

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

   On 17 February 2015, the Group invested in a bond issued by Huarong Finance II Co., Ltd. with a nominal amount of US$5,000,000 at a consideration of US$5,135,000 (equivalent to approximately RMB31.5 million). The bond has a coupon interest rate of 4.5% per annum with a maturity period of 5 years. On 26 December 2016, the Group sold part of the straight bond with a nominal amount of US$1,500,000 at a consideration of US$1,566,000 (equivalent to approximately RMB10.8 million). In the second half of 2018, the Group sold part of the above straight bond with an aggregated nominal amount of US$3,300,000 for an aggregated consideration of US$3,325,000 (equivalent to approximately RMB22.8 million).

   Huarong Finance II, the issuer of the bond, is a subsidiary of China Huarong Asset Management Co., Ltd. ("**China Huarong**"), of which its shares are listed on the Main Board of the Stock Exchange since 30 October 2015 (Stock Code: 2799). The bond issued by Huarong Finance II was unconditionally and irrevocably guaranteed by Huarong (HK) International Holdings Limited, a subsidiary of China Huarong, and with the benefit of a keep well 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 2018, Huarong Group recorded a total income of approximately HK$1,496.1 million and profit for the year of approximately HK$72.5 million. The decrease in business performance was mainly due to a greater fall in valuation of some financial assets, which was affected by the great fluctuations in capital market after Huarong Group implemented the International Financial Reporting Standard 9 — Financial Instruments in 2018. Huarong Group believes the short-term market volatility and the effects of change in fair value of a few of individual investments will cause no material impact on its long-term development.

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

2. Please refer to note 11 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.

3. Please refer to note 11 to the financial statements for the details of the bond issued by BEA.

   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 an aggregate of the then-prevailing U.S. Treasury Rate and the Spread, 2.7%, for the next five years with a maturity period of 10 years. In the second half of 2018, the Group sold part of the above straight bond with an aggregated nominal amount of US$3,300,000 at an aggregated consideration of US$3,338,000 (equivalent to approximately RMB23.1 million).

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, cyber banking 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 2018, BEA recorded the total operating income of approximately HKD 17,072 million and profit for the year of approximately HKD 6,554 million. With customer-centric approach, resilience and innovative spirit, BEA will further develop cross-border financing business to generate strong returns for its investors.

The Group believes that with growing opportunities as the Mainland continues to open up its financial sector and as the Guangdong-Hong Kong-Macao Greater Bay Area initiative gains momentum, 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.

4. In September 2016, the Group invested in a bond issued by ZIB 2015 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 the maturity date 15 June 2018, the bond was fully redeemed. Please refer to note 11 to the financial statements and the annual report of the Company for the year ended 31 December 2017 for details of the bond.

(B) Convertible Bonds

Name of the convertible bond	*Note*	**Interest income recognized in consolidated statement of profit or loss for the year ended 31 December 2018** *(RMB'000)*	**Gain/(loss) on fair value changes recognized in consolidated statement of comprehensive income for the for the year ended 31 December 2018** *(RMB'000)*	**Fair value as at 31 December 2018** *(RMB'000)*	**Percentage of total FVOCI and FVPL Investments at 31 December 2018**	**Percentage of total assets of the Group as at 31 December 2018**
Standard Chartered PLC	*1*	861	439	13,738	3.8%	1.8%

Notes:

1. Please refer to note 11 to the financial statements for the details of the convertible bond issued by Standard Chartered PLC.

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

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

   Pursuant to the annual report of Standard Chartered Group for the year ended 31 December 2018, Standard Chartered Group recorded the operating income of approximately US$14,789 million and profit for the year of approximately US$1,109 million. Standard Chartered Group will combine the best of the old – in connecting people through trade and commerce – together with the best of the new in innovation, digital technologies and increasing client-centricity, to continue to grow strongly, in a safe and sustainable manner.

   The Group believes that Standard Chartered Group will perform steadily with encouraging progress on several fronts and is therefore optimistic about the future prospect of Standard Chartered Group.

(C) *Convertible Preferred Shares*

Name of the convertible preferred Shares	*Notes*	**Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2018** *(RMB'000)*	**Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the for the year ended 31 December 2018** *(RMB'000)*	**Fair value as at 31 December 2018** *(RMB'000)*	**Percentage of total FVOCI and FVPL Investments at 31 December 2018**	**Percentage of total assets of the Group as at 31 December 2018**
Industrial and Commercial Bank of China Limited ("**ICBC**")	*1*	1,987	(224)	34,025	9.5%	4.4%
China Cinda Asset Management Co., Ltd. ("**Cinda**")	2	442	(49)	9,563	2.7%	1.2%

Notes:

1. Please refer to note 11 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 annual results announcement for the year ended 31 December 2018, ICBC Group recorded operating income of approximately RMB725,121 million and net profit of approximately RMB298,723 million. By adhering to the principles of "delivering excellence, adhering to our founding mission, customers' favorite, leading in innovation, security and prudence, and people-oriented", ICBC Group continued to enhance its service capability for the real economy, consolidated the foundation of operation and management, optimized its profitability structure and intensified its risk precaution and control ability, achieving stability in both benefits and quality.

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

2. Please refer to note 11 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 annual results announcement for the year ended 31 December 2018, Cinda Group recorded total income of approximately RMB107,026.0 million and profit for the year of approximately RMB11,879.9 million.

   In January 2019, the Group sold all of the above convertible preferred shares with a nominal amount of US$1,500,000 for a consideration of US$1,361,000 (equivalent to approximately RMB9.1 million).

(D) Investment in Life Insurance Policies

Name of the investment in life insurance policies	*Note*	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2018 *(RMB'000)*	Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the for the year ended 31 December 2018 *(RMB'000)*	Fair value as at 31 December 2018 *(RMB'000)*	Percentage of total FVOCI and FVPL Investments at 31 December 2018	Percentage of total assets of the Group as at 31 December 2018
Investment in life insurance policies	*1*	–	6,960	94,823	26.5%	12.2%

Note:

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

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

   There will be no interest income recognized in the consolidated profit or loss of the Group before the Group terminate the life insurance policies and the accumulated interests earned were reflected in changes in cash value of the life insurance policies. The fair value changes were recognised in the consolidated statement of profits or loss.

(E) Unlisted Equity Investments

Company Name	*Notes*	**Percentage of shareholdings at 31 December 2018**	**Fair value as 31 December 2018** *(RMB'000)*	**Percentage of total FVOCI and FVPL investments 31 December 2018**	**Percentage of the total assets of the Group as 31 December 2018**
Xiamen eName Technology Co., Ltd.	*1*	2.0%	13,963	3.9%	1.8%
Ewan	*2*	4.34%	108,500	30.3%	14.0%
Others	*3*	–	14,118	3.8%	1.8%

Notes:

1. 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 third quarterly report for the nine months ended 30 September 2018, eName recorded unaudited revenue of approximately RMB112.2 million and net profit after tax of approximately RMB9.4 million. Pursuant to the eName's forecasted annual result announcement for the year ended 31 December 2018, eName estimated to record a net loss attributable to the owners of the parent ranging from RMB60.0 million to RMB70.0 million. The loss was mainly due to the recognition of an inventory impairment loss on the domain names purchased by eName of approximately RMB73.4 million considering the downward trend of current market environment of domain industry. Excluding such extraordinary item, eName would record a forecasted net profit attributable to owners of the parent ranging from RMB3.4 million to RMB13.4 million.

   The group believes that as a leading company of the domain industry, eName will strive to track progress and the operating performance will be improved as the domestic economy is recovering.

2. Ewan, one of the non-wholly owned subsidiaries of XD, is primarily engaged in developing and operating an emerging mobile game distribution platform, TapTap, which generates revenue from advertisement.

   The Group entered into an investment agreement to inject RMB50.0 million in cash into Ewan, as a result of which the Group had held 4.54% of the equity interests in Ewan since 1 June 2017. On 21 June 2018, the Group entered into the Capital Injection Agreement to further inject RMB4.54 million in cash into Ewan. Upon completion of the Capital Injection Agreement on 3 September 2018, the Group's equity interests in Ewan decreased from 4.54% to 4.34%. On 31 January 2019, the Group entered into a share purchase agreements to dispose of an aggregate of 4.34% equity interest in Ewan (representing the entire equity interest indirectly held by Group in Ewan) at a total cash consideration of RMB108,500,000. Upon completion, the Group will no longer hold any interest in Ewan. For details, please refer to the announcement of the Company dated 31 January 2019.

   Pursuant to XD's interim report for the six months ended 30 June 2018, Ewan recorded unaudited revenue of approximately RMB125.7 million and net profit after tax of approximately RMB30.3 million for the six months ended 30 June 2018.

3. Others comprised five (5) unlisted limited liability companies and none of these investments accounted for more than 1.4% of the total assets of the Group as at 31 December 2018.

(F) Unlisted Debt Investments

Company Name	*Notes*	Percentage of shareholdings at 31 December 2018	Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2018 *(RMB'000)*	Fair value as at 31 December 2018 *(RMB'000)*	Percentage of total FVOCI and FVPL Investments at 31 December 2018	Percentage of total assets of the Group as at 31 December 2018
APOLLO CAPITAL L.P. ("**APOLLO**")	*1*	8.42%	1,852	17,738	5.0%	2.3%
Others	2	–	5,496	26,307	7.4%	3.4%

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.

   In June 2018, the Group sold part of the above investment with a cost value of US$3,024,000 for a consideration of US$3,786,000 (equivalent to approximately RMB25.0 million).

   Pursuant to APOLLO's financial statements for the year ended 31 December 2018, APOLLO recorded revenue of approximately US$4.4 million and net profit after tax of approximately US$4.1 million. APOLLO disposed part of its investments during the year ended 31 December 2018 and recorded a gain on disposal of investment as revenue. There was no impairment made for any of its investments for the year ended 31 December 2018.

   The Group believes that APOLLO has sufficient capital and is managed by experienced management team and the sectors it invests in have positive prospects and therefore is optimistic about its future business prospects and growth.

2. Others comprised two (2) unlisted debt investments and none of these investments accounted for more than 1.9% of the total assets of the Group as at 31 December 2018.

There was no impairment made for any investments in debt instruments for the year ended 31 December 2018. Investments in equity instruments do not involve any separate impairment accounting under IFRS 9 – Financial Instruments.

Gearing ratio

On the basis of total liabilities divided by total assets, the Group's gearing ratio was 25.6% as at 31 December 2018 and 16.6% as at 31 December 2017.

Capital expenditures

The following table sets forth our capital expenditures for the year ended 31 December 2018 and 2017:

	For the year ended 31 December		
	2018	2017	**Change %**
	(RMB'000)	*(RMB'000)*	
Construction in progress	**45,927**	3,562	1,189.4
Property, plant and equipment	**2,971**	5,762	(48.4)
Total	**48,898**	9,324	424.4

Capital expenditures consisted of property, plant and equipment and construction in progress, of which the former include but are not limited to office equipment, company vehicles for employees' use and leasehold improvements. Total capital expenditures for the year ended 31 December 2018 were approximately RMB48.9 million compared with RMB9.3 million for the year ended 31 December 2017, representing an increase of approximately RMB39.6 million which was primarily due to the increase in construction costs for our R&D center and headquarters in Xiamen, PRC from approximately RMB3.6 million for the year ended 31 December 2017 to approximately RMB45.9 million for the year ended 31 December 2018. The increase was partially offset by the decrease in the purchase of company vehicles for employees' use from approximately RMB2.6 million for the year ended 31 December 2017 to approximately RMB0.5 million for the year ended 31 December 2018.

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

On 2 May 2018, the Company entered into an investment agreement to make an investment of RMB20.0 million into Global OW, a private limited company incorporated in Hong Kong, which holds a 97.132% equity stake in Etranss, one of the cryptocurrency exchanges approved by Bangko Sentral ng Pilipinas (BSP), the Philippine central bank. With the closing of this investment, the Company will own a 20% equity stake in Global OW. As at 31 December 2018, approximately RMB10.0 million had been paid.

On 21 June 2018, the Company, through Xiamen Youli, entered into a Capital Injection Agreement as one of the then existing shareholders and one of the then investors of Ewan, pursuant to which Xiamen Youli will further inject RMB4.54 million in cash into Ewan. As at 21 June 2018 and immediately prior to completion of the Capital Injection, Xiamen Youli owned a 4.54% equity stake in Ewan. Upon completion of the Capital Injection Agreement on 3 September 2018, Xiamen Youli's equity interests in Ewan decreased from 4.54% to 4.34%.

Subsequent to the year ended 31 December 2018, Xiamen Youli as seller entered into share purchase agreements on 31 January 2019, to dispose of an aggregate of 4.34% equity interest in Ewan (representing the entire equity interest indirectly held by Xiamen Youli in Ewan) for a total cash consideration of RMB108,500,000. Upon completion, the Group will no longer hold any interest in Ewan. The disposal provides an opportunity for the Group to realise the return on its investment in Ewan to strengthen the Group's liquidity to further enhance and develop the core businesses of the Group.

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 2018. 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 2018, a bank loan of the Group amounting to HK$65.5 million which was used as a lever of our investment in life insurance policies was secured by the life insurance policies with a fair value of US$13.8 million. As at 31 December 2018, a bank loan of the Group of RMB9.3 million (under a total Loan Facility of up to RMB120.0 million) was used for the construction of the Company's R&D center, which was secured by the land use rights of the Land and the construction-in-progress on the Land with total carrying values of approximately RMB154.1 million.

Contingent liabilities and guarantees

As at 31 December 2018, 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 2018, we had 497 full-time employees, the majority of whom were based in Xiamen, PRC. The following table sets forth the number of our employees segregated by their functions as at 31 December 2018:

	Number of Employees	% of Total
Development	274	55.1
Operations	134	27.0
Administration	84	16.9
Sales and marketing	5	1.0
Total	497	100.0

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

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

Foreign currency risk

In the year ended 31 December 2018, the Group did not encounter significant foreign currency risk from its operations and did not hedge against any fluctuation in foreign currency.

Interest rate risk

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

Use of Net Proceeds from Listing

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

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

	Net Proceeds from Global Offering			
	Available to utilise		**Utilised (up to 31 December 2018)**	**Unused balance**
	RMB'000	*Percentage*	*RMB'000*	*RMB'000*
Expanding and enhancing game portfolio	185,281	40%	185,281	–
Expanding marketing and promotion activities	92,641	20%	68,678	23,963
Establishing and expanding international operations in selected overseas markets	69,480	15%	40,659	28,821
Potential acquisitions of technologies and complimentary online games or business, partnerships and licensing opportunities	69,480	15%	69,480	–
Supplementing working capital and for other general corporate purposes	46,320	10%	46,320	–
	463,202	100%	410,418	52,784

Note: The figures above are approximate figures.

The unused balance of the net proceeds of approximately RMB52.8 million are currently placed with reputable banks as the Group's cash and cash equivalents.

As at 31 December 2018, the Group had utilised the net proceeds from the Global Offering of RMB410.4 million as detailed above in accordance with the intended use of net proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The unused balance of approximately RMB52.8 million, consisted of (i) approximately RMB24.0 million allocated for use in expanding our marketing and promotional activities, and in particular, for promoting one of our new games, *Peace in Chang An* (天下長安), a TV-series-IP-related ARPG game, which was launched in February 2019; and (ii) approximately RMB28.8 million allocated for use in establishing and expanding international operations in select overseas markets, and in particular, for promoting a new RPG game in the Middle East, which is under testing and is expected to be launched in the first half of 2019 and the budgeted amount is expected to cover the selling & marketing expenses till the end of 2019.

Corporate Social Responsibility

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

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

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

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

Compliance with Relevant Laws and Regulations

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

In relation to game development and operation, the Company is committed to complying with the laws and regulations such as The Interim Measures for the Administration of Online Games (Amended in 2017), the Copyright Law of the PRC (2010 Amendment), Online Publishing Service Management Rules (2016), Anti-addiction Notice (2007) and Notice Regarding Commencement of Authentication of Real Names for Anti-addiction System on Online Games.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	*4*	**83,250**	131,697
Cost of sales		**(59,479)**	(38,843)
Gross profit		**23,771**	92,854
Other income and gains	*4*	**33,488**	29,865
Selling and distribution expenses		**(10,629)**	(40,099)
Administrative expenses		**(60,207)**	(64,327)
Research and development costs		**(93,633)**	(93,701)
Finance costs		**(1,904)**	(1,333)
Other expenses		**(5,179)**	(312,676)
Share of losses of associates		**(2,899)**	(218)
LOSS BEFORE TAX	*5*	**(117,192)**	(389,635)
Income tax (expense)/credit	*6*	**(2,268)**	855
LOSS FOR THE YEAR		**(119,460)**	(388,780)
Attributable to:			
Owners of the parent		**(107,508)**	(377,455)
Non-controlling interests		**(11,952)**	(11,325)
		(119,460)	(388,780)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
– Basic and diluted		**RMB(0.07)**	RMB(0.24)

	Note	2018 RMB'000	2017 RMB'000
LOSS FOR THE YEAR		**(119,460)**	(388,780)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**–**	11,372
Reclassification adjustments for loss included in the consolidated statement of profit or loss	*4*	**–**	(3,233)
Debt investments at fair value through other comprehensive income:			
Changes in fair value		**(1,690)**	–
Reclassification adjustments for loss included in the consolidated statement of profit or loss		**295**	–
Exchange differences on translation of financial statements		**12,015**	(14,985)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**10,620**	(6,846)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**30,105**	–
Income tax effect		**(5,238)**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**24,867**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**35,487**	(6,846)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(83,973)**	(395,626)
Attributable to:			
Owners of the parent		**(71,685)**	(384,431)
Non-controlling interests		**(12,288)**	(11,195)
		(83,973)	(395,626)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2018** *RMB'000*	2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**60,680**	14,097
Prepaid land lease payments		**100,797**	103,552
Goodwill	*9*	**20,121**	24,047
Other intangible assets		**3,642**	1,801
Investments in associates		**36,067**	9,229
Prepayments, other receivables and other assets		**17,476**	9,236
Equity investments designated at fair value through other comprehensive income	*11*	**28,081**	–
Available-for-sale investments	*11*	**–**	370,031
Debt investments at fair value through profit or loss	*11*	**196,194**	–
Debt investments at fair value through other comprehensive income	*11*	**25,076**	–
Deferred tax assets		**4,145**	1,284
Total non-current assets		**492,279**	533,277
CURRENT ASSETS			
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	*10*	**21,980**	25,501
Prepayments, other receivables and other assets		**41,777**	45,642
Equity investments designated at fair value through other comprehensive income		**108,500**	–
Other current assets		**7,154**	2,432
Cash and cash equivalents		**104,922**	155,397
Total current assets		**284,333**	228,972
CURRENT LIABILITIES			
Other payables and accruals		**85,168**	55,454
Interest-bearing bank borrowing		**83,694**	53,504
Tax payable		**2,664**	1,825
Contract liabilities		**5,072**	–
Deferred revenue		**54**	10,838
Total current liabilities		**176,652**	121,621
NET CURRENT ASSETS		**107,681**	107,351
TOTAL ASSETS LESS CURRENT LIABILITIES		**599,960**	640,628

	2018	2017
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**9,340**	–
Deferred tax liabilities	**8,601**	–
Contract liabilities	**4,045**	–
Deferred revenue	**–**	4,940
Total non-current liabilities	**21,986**	4,940
Net assets	**577,974**	635,688
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1**	1
Share premium	**498,453**	490,934
Treasury shares	**–**	(2,906)
Reserves	**88,053**	150,023
	586,507	638,052
Non-controlling interests	**(8,533)**	(2,364)
Total equity	**577,974**	635,688

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Date of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Feiyu Technology Hong Kong Ltd.	Hong Kong	HK$1	25 March 2014	100	–	Investment holding
Xiamen Guanghuan Information Technology Co., Ltd. ("Xiamen Guanghuan")	PRC/Mainland China	RMB10,000,000	12 January 2009	–	100	Game development and distribution
Xiamen Youli Information Technology Co., Ltd. ("Xiamen Youli")	PRC/Mainland China	RMB100,000,000	19 September 2011	–	100	Game development and distribution
Xiamen Yidou Information Technology Co., Ltd. ("Xiamen Yidou")	PRC/Mainland China	RMB5,000,000	11 June 2012	–	100	Game development and distribution
Beijing Kailuo Tianxia Technology Co., Ltd. ("Kailuo Tianxia")	PRC/Mainland China	RMB60,000,000	3 May 2012	–	100	Game development and distribution
Xiamen Feiyou Information Technology Co., Ltd.*	PRC/Mainland China	US$5,000,000	24 June 2014	–	100	Investment holding
Xiamen Zhangxin Interactive Technology Co., Ltd. ("Xiamen Zhangxin")	PRC/Mainland China	RMB100,000	27 October 2014	–	100	Game development and distribution
Xiamen Guangling Investment Management Co., Ltd.** ("Xiamen Guangling")	PRC/Mainland China	RMB10,000,000	10 November 2014	–	100	Game development and distribution
Xiamen Feixin Internet Technology Co., Ltd. ("Xiamen Feixin")	PRC/Mainland China	RMB10,000,000	13 November 2014	–	100	Game development and distribution
Shenzhen Feiyuxingkong Internet Technology Co., Ltd. ("Xiamen Feixin")	PRC/Mainland China	RMB1,000,000	23 February 2017	–	100	Game development and distribution

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
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

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

** Xiamen Guangyu Investment Management Co., Ltd. was renamed to Xiamen Guangling Investment Management Co., Ltd. in 2018.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2018. 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 new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instrument*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to IFRS 1 and IAS 28*

Except for the amendments to IFRS 4, amendments to IAS40, IFRIC 22 and *Annual Improvements to IFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligations associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirely as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payments transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement		**Re-**			**IFRS 9 measurement**	
	Notes	**Category**	**Amount** *RMB'000*	**classification** *RMB'000*	**ECL** *RMB'000*	**Other** *RMB'000*	**Amount** *RMB'000*	**Category**
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	92,374	–	–	92,374	FVOCI[1] (equity)
From: Available-for-sale investments	*(i)*		–	92,374	–	–		
Available-for-sale investments		AFS[2]	387,015	(387,015)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	*(i)*			(92,374)	–	–		
To: Debt investments at fair value through profit or loss	*(ii)*			(205,223)	–	–		
To: Debt investments at fair value through other comprehensive income	*(iii)*			(89,418)	–	–		
Debt investments at fair value through other comprehensive income		N/A	–	89,418	–	–	89,418	FVOCI[1] (debt)
From: Available-for-sale investments	*(iii)*		–	89,418	–	–		
Account receivables and receivables due from third-party game distribution platforms and payment channels	*(iv)*	L&R[3]	25,501	–	–	–	25,501	AC[4]
Financial assets included in prepayments, other receivables and other assets		L&R	45,443	–	–	–	45,443	AC
Debt investments at fair value through profit or loss		FVPL[5]	–	205,223	–	–	205,223	FVPL (mandatory)
From: Available-for-sale investments	*(ii)*			205,223	–			
Cash and cash equivalents		L&R	155,397	–	–	–	155,397	AC
Other assets								
Deferred tax assets		L&R	1,284	–	–	–	1,284	AC
Total assets			614,640	–	–	–	614,640	

	IAS 39 measurement		Re-			IFRS 9 measurement	
	Category	Amount	classification	ECL	Other	Amount	Category
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	
Financial liabilities							
Financial liabilities included in other payables and accruals	AC	7,166	–	–	–	7,166	AC
Interest-bearing bank and other borrowings	AC	53,504	–	–	–	53,504	AC
Total liabilities	AC	60,670	–	–	–	60,670	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost
5 FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its debt investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these investments did not pass the contractual cash flow characteristics test in IFRS 9.

(iii) As of 1 January 2018, the Group has assessed its liquidity portfolio of debt investments which had previously been classified as AFS debt investments. The objective of the Group in holding this liquidity portfolio is to earn interest income and, at the same time, manage everyday liquidity needs. The Group concluded that these debt investments are managed within a business model to collect contractual cash flows and to sell the financial assets. Accordingly, the Group has classified these investments as debt investments measured at fair value through other comprehensive income.

(iv) The gross carrying amounts of the accounts receivable and receivables due from third-party game distribution platforms and payments channels under the column "IAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in note 2.2(c) to the financial statements.

Impairment

The adoption of the impairment accounting requirements of IFRS 9 has had no impact on the Group's financial statements.

Hedge accounting

The adoption of the hedge accounting requirements of IFRS 9 has had no impact on the Group's financial statements.

Impact on reserves and accumulated losses

The impact of transition of IFRS9 on reserves and accumulated losses is as follows:

	Reserves and accumulated losses *RMB'000*
Fair value reserve under IFRS 9 (available-for-sale investment revaluation reserve under IAS 39)	
Balance as at 31 December 2017 under IAS 39	(6,779)
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	7,493
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under IAS 39	11,972
Balance as at 1 January 2018 under IFRS 9	12,686
Accumulated losses	
Balance as at 31 December 2017 under IAS 39	(380,612)
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	(7,493)
Remeasurement of debt investments at fair value through profit or loss previously measured at cost under IAS 39	5,015
Balance as at 1 January 2018 under IFRS 9	(383,090)

(c) IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15, 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 disclosures are included in notes 4 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Note	**IFRS15**	**Previous IFRS**	**Increase/ (decrease)**
		RMB'000	*RMB'000*	*RMB'000*
Liabilities				
Deferred revenue	*(i)*	–	13,325	(13,325)
Contract liabilities	*(i)*	13,325	–	13,325
Total liabilities				–

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 is described below:

(i) *Consideration received from customers in advance*

Before the adoption of IFRS 15, the Group recognised unconsumed virtual currency, advanced licensing and upfront fee as deferred revenue. Under IFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB13,325,000 from deferred revenue to contract liabilities as at 1 January 2018 in relation to the unconsumed virtual currency, advanced licensing and upfront fee as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB9,117,000 was reclassified from deferred revenue to contract liabilities in relation to the unconsumed virtual currency, advanced licensing and upfront fee.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

IFRS 16, 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 will adopt IFRS 16 on from 1 January 2019. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. 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.

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 2018 (2017: Nil).

4. REVENUE, OTHER INCOME AND GAINS

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

	2018	2017
	RMB'000	*RMB'000*
Type of goods or service		
Online web and mobile games	**64,905**	106,761
Single-player mobile games	**4,045**	6,081
Game operation	**68,950**	112,842
– Gross basis	**8,906**	36,766
– Net basis	**60,044**	76,076
Online game distribution	**940**	2,916
Licensing income	**6,875**	9,362
Advertising revenue	**6,169**	5,980
Sale of goods	**14**	336
Technical service income	**302**	261
Total revenue from contracts with customers	**83,250**	131,697
Timing of revenue recognition		
Services transferred over time	**6,875**	9,362
Services and goods transferred at a point of time	**76,375**	122,335
Total revenue from contracts with customers	**83,250**	131,697
Other income		
Government grants	**13,125**	14,151
Interest income	**8,275**	11,230
	21,400	25,381
Gains		
Fair value gains, net:		
Financial assets	**10,872**	–
Available-for-sale investments (transfer from equity on disposal)	**–**	3,233
Dividend received from equity investment designated at fair value through other comprehensive income	**626**	–
Dividend income from available-for-sale investments	**–**	600
Gain on disposal of items of property, plant and equipment	**4**	447
Others	**586**	204
	12,088	4,484
	33,488	29,865

5. LOSS BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Channel costs	**3,265**	11,380
Rental fee (including servers)	**11,470**	10,926
Depreciation	**5,026**	6,106
Amortisation of intangible assets	**489**	3,830
Recognition of prepaid land lease payments	**–**	2,525
Advertising expenses	**5,067**	26,825
Auditor's remuneration	**2,100**	2,350
Impairment of goodwill*	**3,926**	300,477
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 on fair value change of contingent considerations*	**–**	495
Employee benefit expenses (excluding directors' and chief executive's remuneration):		
Salaries and wages	**105,707**	90,049
Pension scheme contributions	**12,819**	13,408
Share-based payment expenses	**10,961**	25,685
Other compensation expenses	**2,450**	2,448
	131,937	131,590
Foreign exchange losses*	**173**	656
Loss/(gain) on disposal of items of property, plant and equipment, net	**11**	(211)

* These expenses 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 were subject to income tax at a statutory rate of 25% for the year on their respective taxable income, except for Xiamen Yidou, Xiamen Guangling and Xiamen Feixin which were certified as Software Enterprises and are exempted from income tax for two years starting from the first year in which they generate taxable profit, followed by a 50% reduction for the next three years. 2014, 2015 and 2016 are the first profitable years for Xiamen Yidou, Xiamen Guangling and Xiamen Feixin, respectively. Xiamen Youli and Kailuo Tianxia were qualified as High and New Technology Enterprises ("HNTEs") in 2018 and entitled to a preferential income tax rate of 15% for a 3-year period.

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 2018, 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 RMB409,239,000 at 31 December 2018 (2017: RMB416,130,000).

	2018	2017
	RMB'000	*RMB'000*
Current tax expense/(credit)	**1,766**	(1,508)
Deferred tax	**502**	653
Total tax expense/(credit) for the year	**2,268**	(855)

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:

	2018	2017
	RMB'000	*RMB'000*
Loss before tax	**(117,192)**	(389,635)
Tax at the applicable tax rate	**(27,896)**	(99,792)
Lower tax rates enacted by local authorities	**(2,811)**	(10,543)
Expenses not deductible for tax	**5,120**	86,455
Other tax credit	**(10,961)**	(5,831)
Income not subject to tax	**(971)**	(150)
Tax losses utilised from previous years	**(1,078)**	(36)
Deferred tax assets not recognised	**40,865**	29,042
Tax expense/(credit)	**2,268**	(855)

7. DIVIDENDS

The Board does not recommend payment of a final dividend to the ordinary equity holders of the Company for the year ended 31 December 2018 (for the year ended 31 December 2017: Nil).

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 1,539,526,550 (2017: 1,548,600,256) 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 2018 and 2017 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 2017, net of accumulated impairment	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
Cost at 1 January 2018, net of accumulated impairment	24,047
Impairment during the year	(3,926)
At 31 December 2018	20,121
At 31 December 2018	
Cost	432,278
Accumulated impairment	(412,157)
Net carrying amount	20,121

Impairment testing of goodwill

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

- Super Phantom Cat cash-generating unit
- Sanguo Zhiren cash-generating unit
- Shenzhen Zhangxin cash-generating unit

The recoverable amounts of the above cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering are a five-year period approved by the board of directors. The discount rate applied to the cash flow projections are 21% and 31% (2017: 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:

	2018	2017
	RMB'000	*RMB'000*
Super Phantom Cat cash-generating unit	**11,040**	12,450
Shenzhen Zhangxin cash-generating unit	**8,694**	11,210
Sanguo Zhiren cash-generating unit	**387**	387
Carrying amount of goodwill	**20,121**	24,047

Assumptions were used in the value in use calculation of the cash-generating units for the years ended 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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 ageing analysis of the receivables as at the end of the year, based on the invoice date and net of loss allowance, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**21,980**	25,501

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's accounts receivable and receivables due from third-party game distribution platforms and payment channels using a provision matrix:

As at 31 December 2018

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
Expected credit loss rate	–	–	–	–	–
Gross carrying amount (RMB'000)	21,980	–	–	–	21,980
Expected credit losses (RMB'000)	–	–	–	–	–

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 is was no provision for individually impaired accounts receivable and receivables due from third-party game distribution platforms and payment channels with a carrying amount before provision of RMB25,501,000.

The ageing analysis of the receivables as at 31 December 2017 that were not considered to be impaired under IAS 39 is as follows:

	2017
	RMB'000
Within 3 months	25,501

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

Receivables that were within 3 months related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

11. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, DEBT INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2018 RMB'000	2017 RMB'000
Debt investments at fair value through other comprehensive income			
Straight bonds	*(1)*	**25,076**	–
Equity investments designated at fair value through other comprehensive income			
Unlisted equity investments, at fair value	*(2)*		
Non-current			
Xiamen eName Technology Co., Ltd.		**13,963**	–
GFT International Holding Limited		**10,252**	–
GameSky Global PTE LTD		**2,520**	–
Xiamen Eling Network Technology Co., Ltd.		**1,346**	–
		28,081	–
Current			
Ewan Shanghai Network Technology Co., Ltd.		**108,500**	–
		136,581	–
Debt investments at fair value through profit or loss			
Unlisted debt investments, at fair value	*(3)*		
Apollo Capital L.P.		**17,738**	–
Future Capital Discovery Fund II, L.P.		**14,423**	–
Farasis Energy (Ganzhou) Investment Fund, L.P.		**11,884**	–
Convertible bond	*(4)*	**13,738**	–
Convertible preferred shares	*(5)*	**43,588**	–
Investment in life insurance policies	*(6)*	**94,823**	–
		196,194	–
Available-for-sale investments			
Straight bonds	*(1)*	**–**	89,418
Unlisted equity investments, at cost	*(2)/(3)*	**–**	128,941
Convertible bond	*(4)*	**–**	19,948
Convertible preferred shares	*(5)*	**–**	43,861
Investment in life insurance policies	*(6)*	**–**	87,863
		–	370,031

(1) On 17 February 2015, the Group invested in a bond issued by Huarong Finance II Co., Ltd. with a nominal amount of US$5,000,000 at a consideration of US$5,135,000 (equivalent to approximately RMB31.5 million). The bond has a coupon interest rate of 4.5% per annum with a maturity period of 5 years. On 26 December 2016, the Group sold part of the straight bond with a nominal amount of US$1,500,000 at a consideration of US$1,566,000 (equivalent to approximately RMB10.8 million). In July to December 2018, the Group sold part of the above straight bond with a nominal amount of US$3,300,000 for a consideration of US$3,325,000 (equivalent to approximately RMB22.8 million).

On 9 September 2016, the Group invested in a bond issued by Zhongrong International Trust Co., Ltd. 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 15 June 2018, the Group sold the above straight bond with a nominal amount of US$3,000,000 at a consideration of US$3,077,000 (equivalent to approximately RMB20.4 million).

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

On 27 June 2017 and 28 June 2017, the Group invested in a bond issued by 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 an aggregate of the then-prevailing U.S. Treasury Rate and the Spread, 2.7%, for the next five years with a maturity period of 10 years. In September to December 2018, the Group sold part of the above straight bond with a nominal amount of US$3,300,000 for a consideration of US$3,338,000 (equivalent to approximately RMB23.1 million).

Debt investments at fair value through other comprehensive income are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

(2) The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

In May 2018, the Group sold its equity interest in Xiamen Midai Investment Management Co., Ltd. as this investment no longer coincided with Group's investment strategy. The fair value on the dates of sale was RMB2,740,000 and the accumulated loss recognised in other comprehensive income of RMB260,000 was transferred to retained earnings.

During the year ended 31 December 2017, the net gain in respect of the Group's investments recognised in other comprehensive income amounted to RMB11,372,000, of which RMB3,233,000 was reclassified from other comprehensive income to the statement of profit or loss for the year.

(3) In June 2018, the Group sold part of its equity interest in Apollo Capital L.P. due to the Group's investment strategy. The fair value on the dates of sale was RMB25,048,000 and the accumulated gain recognised in other comprehensive income of RMB5,021,000 was transferred to retained earnings.

During the year ended 31 December 2018, the Group received dividends in the amount of RMB626,000 from Future Capital Discovery Fund II, L.P..

(4) On 6 April 2015, the Group invested in a perpetual convertible bond issued by Standard Chartered PLC with a nominal amount of US$8,000,000 and a coupon interest rate of 6.5% per annum at a consideration of US$8,101,000 (equivalent to approximately RMB49.7 million). In July and August 2016, the Group sold part of the above perpetual convertible bond with a nominal amount of US$5,000,000 for a consideration of US$4,788,000 (equivalent to approximately RMB31.9 million). On 31 January 2018, the Group sold another part of the above perpetual convertible bond with a nominal amount of US$1,000,000 for a consideration of US$1,056,000 (equivalent to approximately RMB6.7 million).

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

Debt investments at fair value through profit or loss is that which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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

On 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.

Debt investments at fair value through profit or loss are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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

As at 31 December 2018, the insurance premium was pledged to a bank to secure a short term advance facility granted to the Group.

12. SHARE CAPITAL

(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 options were granted to one member of senior management to subscribe for 15,000,000 shares at an exercise price of HK$1.026 per share. All share options granted will be vested equally in three tranches as to 33% of the aggregate number of shares on 13 November 2018, 2019, and 2020, respectively. Each option granted if not exercised subsequently will expire on 12 November 2027.

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

	2018		2017	
	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	**0.89**	**83,313**	0.71	69,507
Granted during the year	**–**	**–**	1.12	30,160
Forfeited during the year	**0.55**	**(4,813)**	0.61	(4,000)
Exercised during the year	**0.55**	**(6,066)**	0.55	(12,353)
Expired during the year	**0.55**	**(405)**	0.55	(1)
At 31 December	**0.94**	**72,029**	0.89	83,313

The weighted average share price at the date of exercise for the share options exercised during the year was HK$0.87 per share (2017: HK$1.14 per share).

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

2018

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
38,229	0.55	31-12-2015 to 05-12-2019
3,000	3.93	10-06-2016 to 09-06-2025
1,000	1.63	31-12-2016 to 04-07-2026
6,800	1.26	31-12-2017 to 26-03-2027
3,000	1.26	30-06-2017 to 26-03-2027
5,000	1.10	15-05-2018 to 14-05-2027
15,000	1.03	13-11-2018 to 12-11-2027
72,029		

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		

* 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.

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

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

The total number of the ordinary 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 years 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 RMB4,352,000 in the year 2018 (2017: RMB10,880,000).

As at 31 December 2018, there were no RSUs outstanding under the Post-IPO RSU Plan.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

Annual General Meeting

The 2019 annual general meeting (the "**AGM**") of the Company is scheduled to be held on Monday, 27 May 2019. 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 2018, the Company repurchased a total of 9,642,000 Shares on the Stock Exchange at an aggregate price paid of HK$8,893,529.58 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	Lowest price paid	Aggregate price paid
		HK$	*HK$*	*HK$*
January 2018	9,642,000	0.95	0.88	8,893,529.58
Total	9,642,000			8,893,529.58

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 2018.

Final Dividend

The Board did not declare a final dividend for the year ended 31 December 2018 (the year ended 31 December 2017: Nil)

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019, 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, 27 May 2019. 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, 21 May 2019.

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 2018 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 and 27 December 2018 respectively. 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 2018.

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 2018.

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.

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 2018.

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 2018.

Publication of the Annual Results and 2018 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 2018 annual report containing all the information required by the Listing Rules will be despatched 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
"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$0.0000001 each
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong)
"US$" or "United States Dollars" or "USD"	United States dollars, the lawful currency of the United States of America
"XD"	X.D. Network Inc. (心動網絡股份有限公司), an online game publishing and developing company with its shares listed on the National Equities Exchange And Quotations of the PRC (Stock Code: 833897) since 4 November 2015 and delisted from 25 December 2018
"Xiamen Geecap"	Xiamen Geecap Equity Investment Co., Ltd. (廈門吉相股權投資有限公司), 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, 29 March 2019

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.