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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)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

For the reasons explained in this announcement under "Review of Unaudited Annual Results", the auditing process for the annual results of the Group for the year ended 31 December 2019 has not been completed. In the meantime, in order to keep the shareholders and potential investors of the Company informed of the business operation and financial position of the Group, the Board is pleased to announce the unaudited consolidated annual results of the Group for the year ended 31 December 2019, together with the comparative information for the year ended 31 December 2018.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the year ended 31 December		
	2019	2018	**Change%**
	(RMB'000)	*(RMB'000)*	
	(unaudited)	(audited)	
Revenue	**112,851**	83,250	35.6
Gross profit	**78,070**	23,771	228.4
Loss before tax	**(87,311)**	(117,192)	(25.5)
Loss after tax	**(88,699)**	(119,460)	(25.8)
Loss for the year attributable to owners of the parent	**(80,342)**	(107,508)	(25.3)
Non-IFRSs Measures			
– Adjusted net loss attributable to owners of the parent (unaudited)[(1)]	**(78,720)**	(94,097)	(16.3)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted	**RMB(0.05)**	RMB(0.07)	

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

For the year ended 31 December 2019, the Company made encouraging progress in improving its financial performance. Total revenue was RMB112.9 million, representing a year-over-year increase of 35.6%, primarily driven by the increase in online game distribution, licensing and IP-related income as well as advertising revenue, which was partially offset by the decrease in revenue from game operations. Net loss attributable to owners of the parent was RMB80.3 million, a decrease of by 25.3% year-over-year. As at 31 December 2019, the Company's RPG mobile and web games had approximately 55.1 million and 172.1 million cumulative registered users respectively, while its casual games had approximately 562.8 million cumulative activated downloads. For the reporting period, average MPUs for mobile RPG, web RPG and mobile casual games were approximately 33,000, 9,000 and 98,000 respectively, while the corresponding ARPPU was approximately RMB75.2, RMB142.6 and RMB5.9, respectively.

China's online game industry has experienced volatility in recent years. Following a historic drop in revenue to a single-digit growth rate in 2018, the industry began showing signs of recovery in 2019. According to the 2019 Annual Report of China's Online Game Industry published by Gamma Data (伽馬數據), total revenue of China's online game industry including contribution from international markets was RMB310.2 billion, representing a year-over-year growth of 10.6%, compared with 7.6% for 2018. Excluding overseas markets, China's domestic market generated revenue of RMB233.0 billion, representing a year-over-year growth of 8.7%, compared with 5.3% for the prior year. The market of mobile games continued to grow with revenue reaching RMB151.4 billion, representing an increase of 13.0% compared with 2018.

The resumption of new game monetisation approvals in late 2018 following regulatory changes relieved some of the pressure on the industry. However, the approval process and criteria used to examine games have become more rigorous. This significantly raised approval threshold with only well-made games receiving approval for publication and monetisation. While this created uncertainties when it comes to launching new games and difficulties in generating revenue, it has created a favourable environment for the development of innovative and high quality games, which have always formed the core of our business strategy since inception.

During the year ended 31 December 2019, the Company launched 4 RPG games, which were (i) *Kung Fu Da Huang Dou* (功夫大黃豆), a 3D RPG mobile game based on an IP licensed from the animated movie TOFU; (ii) *Rise of Heroes* (阿拉伯英雄), a mobile game which targets international markets; (iii) *Peace in Chang' an* (天下長安), a 3D ARPG mobile game based on the IP licensed from a TV series of the same name, and (iv) *Horcrux College* (魂器學院), a two-dimensional game which ranked No.1 on the Best Sellers list for 4 days after its release in October 2019 and maintained in the Top 10 for almost the entire first month following its launch on bilibili, a leading anime, comics and games ("**ACG**") platform, which is particularly popular among the younger generations in China. The game also ranked No.1 on the Most

Played list for 3 days and maintained in the Top 10 for almost the entire first month following its launch on TapTap, a leading game distribution platform in China. In addition to the 4 RPG games, the Company also launched a console version on Nintendo Switch and PC version on Steam of *Super Phantom Cat II* (超級幻影貓II) in the first half of 2019 where they went on to receive tremendously positive feedback from users.

Leveraging the popular *Carrot Fantasy* (保衛蘿蔔) game series, whose highly adorable animations have been well-received among users, the Company continued to issue licenses to partners allowing them to apply the IP to their products while at the same time diversifying revenue streams and further increasing the IP's reach and popularity. During the reporting period, the Company renewed licensing agreements for Carrot Fantasy (保衛蘿蔔) with a number of partners, which included: (i) NICI International Trading (Shanghai) Co., Ltd. for the plush toys; (ii) Manufacture d'Articles de Precision Et de Dessin for stationary; (iii) China Children's Publishing House for books; (iv) Yunnan Baiyao (雲南白藥), a well-known dental health product manufacturer in China, for dental health and personal care products, and (v) Beijing GuoYuan Blue Ocean Investment Co., Ltd. (北京國元藍海投資有限公司) for "3C" (Computer, Communication, and Consumer) products.

In addition to licensing contract renewals, the Company also expanded into new markets and territories during the reporting period. The *Carrot Fantasy* (保衛蘿蔔) book series were localised and launched in Hong Kong and Vietnam in 2019, following its broad success in the Mainland Chinese market. The Company issued a license allowing the image of major characters in the *Carrot Fantasy* (保衛蘿蔔) game series to be used in Meitu (美圖) apps globally as part of its overseas strategy to leverage game characters' popularity and the tremendous user base of Meitu (美圖) apps which overlap with the games' target demographics. The Company also partnered with both Beijing Hanyi Innovation Technology Co., Ltd. (北京漢儀創新科技股份有限公司) and Changzhou Mylafe Network Technology Co., Ltd. (常州麥拉風網絡科技有限公司), to jointly-develop *Carrot Fantasy* (保衛蘿蔔) themed wallpapers and fonts for cellphone downloads, which have been launched on a number of mainstream Android phones in China including those from Huawei, Xiaomi, OPPO, and vivo. The Company seized the opportunity to participate in the 2019 Xiamen International Animation Festival by issuing a license to China Publishing Group Xindeco (Xiamen) Culture Media Co., Ltd. (中版信達(廈門)文化傳媒有限公司) in July 2019 allowing them to use the images from *Carrot Fantasy* (保衛蘿蔔) in the Golden Dolphin IP Derivatives Design Competition during the festival.

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;

- Technical issues that hamper the Group's ability to collect data and update games will negatively affect the Group's performance;

- The global economy experienced a slowdown, if the game players reduce their spending on playing games due to such uncertain economic conditions, our financial performance may be adversely affected;

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

- 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 fulfil 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 an overseas game distribution and operation team to expand international operations in selected overseas market to reduce the impact of policies and regulations changes in mainland China on the Group;

- 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 and technology changes, we brought on board new talent to keep the competitiveness of our research and development ("**R&D**") teams and operation teams; and

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

Outlook for 2020

Despite the headwinds that China's online game industry has been facing over the past three years, significant growth potential for mobile games remains, as mobile online games have become an integral part of people's focus over the years as they have been spending more time on smartphones and tablets. The Company will continue to devote resources towards developing high-quality games leveraging its well established library of IP. The Company's pipeline of games targeted for lease in 2020 include two Multiplayer Online Battle Arena (MOBA) games and a sequel to the *Carrot Fantasy* (保衛蘿蔔) game series. Concurrently, the Company will continue to explore key overseas markets mainly through the publishing of both self and third-party-developed games.

With regard to IP licensing, the Company plans to continue expanding the category of products and services for use not only online but also offline through the licensing of characters and images from *Carrot Fantasy* (保衛蘿蔔), with an aim to seize new opportunities arising from the launch of the games' sequel in 2020.

Event after the year ended 31 December 2019

On 21 January 2020, the Board resolved to grant an aggregate of 112,000,000 share options (the "**Share Options**" and each a "**Share Option**") of the Company to five of senior management of the Company to subscribe for an aggregate of 112,000,000 new Shares in the share capital of the Company under the Company's Post-IPO Share Option Scheme, subject to acceptance. Among the 112,000,000 Share Options granted, 90,000,000 Share Options are subject to the approval of the independent shareholders of the Company at the extraordinary general meeting to be convened by the Company. Upon full exercise of the Share Options, the Shares to be allotted and issued thereunder represent approximately 7.24% of the total number of Shares in issue as at the date of the announcement and approximately 6.75% of the enlarged issued share capital of the Company. For details, please refer to the Company's announcement dated 21 January 2020.

Final Dividend

The Board did not declare a final dividend for the year ended 31 December 2019 (for the year ended 31 December 2018: Nil)

FINANCIAL REVIEW

Operating Information

Our Games

In 2019, the Company continued to strategically develop high-quality games, including mobile and console games while at the same time strengthening its game publishing capabilities, in order to meet the rapidly evolving demand of gamers. This all happened despite the unfavorable regulatory environment and intense competition in the video game industry. In 2019, the Group launched four RPG games which included *Kung Fu Da Huang Dou* (功夫大黃豆), a 3D RPG mobile game based on the IP that was licensed from the animated movie TOFU, *Rise of Heroes* (阿拉伯英雄), which targets international markets, *Peace in Chang'an* (天下長安), a 3D ARPG mobile game based on the IP that was licensed from a TV series of the same name, and *Horcrux College* (魂器學院), a two-dimensional game. Following its release in October 2019, *Horcrux College* (魂器學院) demonstrated enormous potential with very positive feedback received. It ranked No. 1 on the "Most Expected Game" list as well as the "Best Sellers" list for 4 days, and maintained a Top 10 ranking on the "Best Sellers" list for almost the entire first month following its launch on bilibili, an ACG platform which is particularly popular among the younger generations in China. *Horcrux College* (魂器學院) also ranked No. 1 on the "Most Played" list for 3 days and maintained a Top 10 ranking on the list for almost one month following its launch in TapTap, a popular game distribution platform in China. The game also enjoyed multiple recommendations by editors of bilibili and Taptap after its launch with rave reviews for its high quality content and design. The Group also launched a console version on Nintendo Switch and PC version on Steam for *Super Phantom Cat II* (超級幻影貓II) in the first half of 2019 which also received positive feedback from users.

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			
	2019		2018	
	(RMB'000)	***(% of Total Revenue)***	*(RMB'000)*	*(% of Total Revenue)*
Game Operation				
Web games	**15,256**	**13.5**	15,209	18.3
Mobile games				
RPGs	**35,176**	**31.2**	45,161	54.2
Casual	**7,802**	**6.9**	5,853	7.0
PC games	**527**	**0.5**	871	1.1
HTML5 games	**185**	**0.2**	1,856	2.2
Console games	**280**	**0.2**	–	–
Total	**59,226**	**52.5**	68,950	82.8

Revenue contributed by game operation was approximately RMB59.2 million, representing a year-over-year decrease of approximately 14.1% as compared to approximately RMB69.0 million for 2018, which was primarily due to the decline in revenue from our existing RPG games as they reached the late stages of their respective lifecycles. As a percentage of total revenue, game operation decreased from approximately 82.8% for 2018 to approximately 52.5% for 2019, mainly due to a decrease in revenue contribution from mobile games and at the same time, the increases in revenue contribution from online game distribution and advertising business.

Our Players

The Company assesses its operating performance using a set of key performance indicators, which include MAUs, MPUs and ARPPU. Fluctuations in its operating data were primarily a result of changes in the number of players who played, downloaded (in the case of mobile games and PC games) and paid for virtual items and premium features in the games. Using these operating data as a key performance indicators help the Company monitor its ability to offer engaging online games, the popularity of its games, the monetization potential of its player base and the degree of competition in the online game industry, and as a result the Company can continuously develop and improve its business strategies.

As at 31 December 2019, (i) our RPG mobile games and web games had approximately 227.2 million cumulative registered users, composed of approximately 172.1 million users for web games and approximately 55.1 million users for mobile games; (ii) our casual games had approximately 562.8 million cumulative activated downloads; and (iii) our HTML5 game had approximately 33.4 million cumulative registered users. For the month of December 2019, (i) our RPG mobile games and web games had approximately 0.4 million MAUs in aggregate, composed of approximately 0.2 million MAUs for mobile games and approximately 0.2 million MAUs for web games; (ii) our casual games had approximately 4.3 million MAUs; and (iii) our HTML5 game had approximately 0.3 millions MAUs.

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

	For the year ended 31 December		
	2019	2018	**Change%**
Average MPUs			
Web games (RPGs) (000's)	**9**	10	(10.0)
Mobile games (RPGs) (000's)	**33**	51	(35.3)
Casual (000's)	**98**	110	(10.9)
ARPPU			
Web games (RPGs) (RMB)	**142.6**	121.6	17.3
Mobile games (RPGs) (RMB)	**75.2**	96.6	(22.2)
Casual (RMB)	**5.9**	4.4	34.1

Note: Duplicated paying users of our games published on our own platforms were not eliminated during calculation.

MPUs for web games were approximately 9,000 for the year ended 31 December 2019, compared with approximately 10,000 for the year ended 31 December 2018. The decrease was due to its web games reaching the latter stages of their expected lifecycles, as well as changes in the Company's strategic focus which shifted from web games to mobile games beginning in 2013. Average MPUs for mobile RPG games decreased from approximately 51,000 for the year ended 31 December 2018 to approximately 33,000 for the year ended 31 December 2019, primarily attributable to the termination of several mobile RGP games such as *Demon Tower* (魔界塔) and *Sprites Legend* (靈妖記－神仙道外傳) which contributed a large number of MPUs for the year ended 31 December 2018, but entered into a latter stage of its lifecycle in 2019. Average MPUs for casual games decreased from approximately 110,000 for the year ended 31 December 2018 to approximately 98,000 for the year ended 31 December 2019, primarily attributable to the decrease in the average MPUs for the *Carrot Fantasy* (保衛蘿蔔) game series, which have reached the latter stages of their expected lifecycles since 2017.

ARPPU for web games increased from approximately RMB121.6 for the year ended 31 December 2018 to approximately RMB142.6 for the year ended 31 December 2019, primarily driven by the increase in ARPPU for the web version of *Shen Xian Dao* (神仙道), which has entered the mature stage of its expected lifecycle when loyal players are more willing to make in-game purchase. ARPPU for casual games increased from approximately RMB4.4 for the year ended 31 December 2018 to approximately RMB5.9 for the year ended 31 December 2019, primarily attributable to the increase in ARPPU of the *Carrot Fantasy* (保衛蘿蔔) game series, which have been updated more frequently with new features to attract existing and new players. ARPPU for RPG mobile games decreased from approximately RMB96.6 for the year ended 31 December 2018 to approximately RMB75.2 for the year ended 31 December 2019 due to the decline in ARPPU from our RPG mobile game *San Guo Zhi Ren* (三國之刃), which had already matured into the latter stages of its expected lifecycle since 2017. The termination of *Sprites Legend* (靈妖記－神仙道外傳) in early 2019, which was an RPG game with higher ARPPU also contributed to the decrease in ARPPU of RPG mobile games.

The Company continued to launch various in-game promotions and activities, release regular updates of our premium games and offer high-quality customer service, in order to enhance the features of its games and to maintain user interest as part of its core business strategies. The Company believes all these initiatives have had significant influence on retaining its active players and maintaining its expansive active player base for sustainable growth.

The year ended 31 December 2019 compared to the year ended 31 December 2018

The following table sets forth the unaudited income statement of our Group for the year ended 31 December 2019 as compared to the year ended 31 December 2018.

	For the year ended 31 December		
	2019	2018	**Change %**
	(RMB'000)	*(RMB'000)*	
	(unaudited)	(audited)	
Revenue	**112,851**	83,250	35.6
Cost of sales	**(34,781)**	(59,479)	(41.5)
Gross profit	**78,070**	23,771	228.4
Other income and gains	**14,333**	33,488	(57.2)
Selling and distribution expenses	**(29,257)**	(10,629)	175.3
Administrative expenses	**(75,387)**	(60,207)	25.2
Research and development costs	**(70,448)**	(93,633)	(24.8)
Finance costs	**(2,672)**	(1,904)	40.3
Other expenses	**(670)**	(5,179)	(87.1)
Share of losses of associates	**(1,280)**	(2,899)	(55.8)
LOSS BEFORE TAX	**(87,311)**	(117,192)	(25.5)
Income tax expense	**(1,388)**	(2,268)	(38.8)
LOSS FOR THE YEAR	**(88,699)**	(119,460)	(25.8)
Attributable to:			
Owners of the parent	**(80,342)**	(107,508)	(25.3)
Non-controlling interests	**(8,357)**	(11,952)	(30.1)

Revenue

The following table sets forth a breakdown of our revenue for the years ended 31 December 2019 and 2018:

	For the year ended 31 December			
	2019		2018	
	(RMB'000)	***(% of Total Revenue)***	*(RMB'000)*	*(% of Total Revenue)*
	(unaudited)		(audited)	
Game Operations	**59,226**	**52.5**	68,950	82.8
Online game distribution	**30,885**	**27.4**	940	1.1
Licensing and IP-related income	**10,546**	**9.3**	6,889	8.3
Advertising revenue	**11,430**	**10.1**	6,169	7.4
Technical service income	**764**	**0.7**	302	0.4
Total	**112,851**	**100.0**	83,250	100.0

Total revenue increased by approximately 35.6% to approximately RMB112.9 million for the year ended 31 December 2019, compared to the year ended 31 December 2018.

Revenue from game operations decreased by approximately 14.1% year-over-year to approximately RMB59.2 million for the year ended 31 December 2019. The decrease was primarily due to *San Guo Zhi Ren* (三國之刃) entering the latter stage of its expected lifecycle since 2017, coupled with the termination of *Sprites Legend* (靈妖記－神仙道外傳) in early 2019. The decrease was also due to the delayed launch of several new games as a result of the restrictions placed on new game publication and monetisation approvals as well as the Company's strategic decision to invest additional development time and resources to enhance overall game quality.

Revenue from online game distribution increased significantly by approximately 3,185.6% year-over-year to approximately RMB30.9 million for the year ended 31 December 2019, which was primarily due to the launch of (i) *Horcrux College* (魂器學院), a two-dimensional game developed by a third-party game developer; (ii) *Kung Fu Da Huang Dou* (功夫大黃豆), a mobile game developed by a third-party game developer and (iii) *Peace in Chang' an* (天下長安), a mobile game developed by our associated company and the testing of a few other mobile games developed by other game developers.

Licensing and IP-related income increased by approximately 53.1% year-over-year to approximately RMB10.5 million for the year ended 31 December 2019. The increase was primarily attributable to the recognition of a one-off licensing fee of approximately RMB6.6 million for the HTML5 version of *Shen Xian Dao* (神仙道), while there was no such one-off licensing fees recognised for the year ended 31 December 2018. The increase in licensing and IP-related income was partially offset by the decrease in licensing fees of *Carrot Fantasy III* (保衛蘿蔔III) from approximately RMB4.8 million for the year ended 31 December 2018 to approximately RMB2.2 million for the year ended 31 December 2019 due to the expiration of the licensing agreement in June 2019.

Advertising revenue increased by approximately 85.3% to approximately RMB11.4 million for the year ended 31 December 2019 from the last year, primarily attributable to the increase in advertising revenue of the *Carrot Fantasy* (保衛蘿蔔) series as a result of our cooperation with Toutiao (今日頭條) since the second half of 2018.

Technical service income increased by approximately 153.0% to approximately RMB0.8 million for the year ended 31 December 2019 from the last year, primarily due to the provision of technical support services for Meitu's game distribution platforms in the first quarter of 2019 after the effective termination of the exclusive licensing agreement with Meitu Networks while there were no such technical support services rendered in 2018.

Cost of sales

Our cost of sales decreased by approximately 41.5% from approximately RMB59.5 million for the year ended 31 December 2018 to approximately RMB34.8 million for the year ended 31 December 2019, 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 were no such costs recognised for the year ended 31 December 2019. The Group entered into an exclusive licensing agreement with Meitu Networks to operate, develop and manage the game operations on its game businesses since late March 2018. Having considered the Group's future strategic direction and current market environment of game distribution platforms, and after due and careful consideration through friendly negotiations, on 21 February 2019, the Group and Meitu Networks mutually agreed to discontinue the cooperation and entered into an agreement to terminate the cooperation contemplated under the exclusive licensing agreement. The decrease in cost of sales was also attributable to the decrease in employee costs from approximately RMB28.9 million for the year ended 31 December 2018 to approximately RMB20.4 million for the year ended 31 December 2019, which was associated with the decrease in the number of operational employees to streamline the Company's corporate structure. In addition, the decrease in cost of sales was also attributable to the decrease in share-based compensation from approximately RMB3.6 million for the year ended 31 December 2018 to approximately RMB1.4 million for the year ended 31 December 2019.

Gross profit and gross profit margin

Gross profit increased by approximately 228.4% from approximately RMB23.8 million for the year ended 31 December 2018 to approximately RMB78.1 million for the year ended 31 December 2019. Our gross profit margin for the year ended 31 December 2019 was approximately 69.2% as compared with 28.6% for the year ended 31 December 2018.

Other income and gains

Other income and gains decreased by approximately 57.2% from approximately RMB33.5 million for the year ended 31 December 2018 to approximately RMB14.3 million for the year ended 31 December 2019, which was primarily due to the decrease in government grants from approximately RMB13.1 million for the year ended 31 December 2018 to approximately RMB6.3 million for the year ended 31 December 2019. Government grants are issued in connection with the Group's financial performance. The decrease in other income and gains was also due to the decrease in investment income from approximately RMB10.9 million for the year ended 31 December 2018 to approximately RMB0.4 million for the year ended 31 December 2019 which was attributable to the change in fair value of our debt investments at fair value through profit or loss. In addition, the decrease in other income and gains was also attributable to the decrease in bond interest income and bank interest income from approximately RMB8.3 million for the year ended 31 December 2018 to approximately RMB5.7 million for the year ended 31 December 2019, which was mainly due to the decreased balance of bond investments following the disposal of bonds since 2018 to invest in the equity investments and to support the construction of the Company's R&D centre and headquarters building.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 175.3% from approximately RMB10.6 million for the year ended 31 December 2018 to approximately RMB29.3 million for the year ended 31 December 2019, which was mainly attributable to the increase in advertisement fees from approximately RMB5.1 million to approximately RMB25.2 million, primarily due to the increased number of promotional activities for *Horcrux College* (魂器學院), *Peace in Chang' an* (天下長安) and *Rise of Heroes* (阿拉伯英雄) which were launched in 2019 and other games undergoing testing that are currently in various stages of development. The increase was partially offset by a decrease in channel fees from approximately RMB3.3 million for the year ended 31 December 2018 to approximately RMB2.2 million for the year ended 31 December 2019, as the Company's self-operated games entered the mature stages of their respective lifecycles and the termination of the operation of *Sprites Legend* (靈妖記－神仙道傳) in early 2019.

Administrative expenses

Administrative expenses increased by approximately 25.2% from approximately RMB60.2 million for the year ended 31 December 2018 to approximately RMB75.4 million for the year ended 31 December 2019. The increase was primarily attributable to the recognition of a bad debt on loans to an associated company, Xiamen Chenxing, the developer of *Peace in Chang' an* (天下長安), of approximately RMB14.1 million for the year ended 31 December 2019, which the Company does not expect to recover due to the underperformance of the game in 2019, while no such expenses were recognised in 2018. The Company is still uncertain as to when the Peace in Change'an TV-series can hit the screen. The increase was also due to the recognition of a bad debt on the deposit for the development performance of the land located in Huli District, Xiamen, the PRC (the "**Land**") as disclosed in the announcement of the Company dated 21 July 2016 of approximately RMB1.6 million for the year ended 31 December 2019, which the Company does not expect to recover due to the non-fulfilment of the tax contribution condition as agreed in the agreement in respect of the supervision of the Land, while no such expenses were recognised in 2018.

Research and development costs

R&D costs decreased by approximately 24.8% from approximately RMB93.6 million for the year ended 31 December 2018 to approximately RMB70.4 million for the year ended 31 December 2019, which was primarily attributable to the decrease in employee costs from approximately RMB68.8 million for the year ended 31 December 2018 to approximately RMB52.6 million for the year ended 31 December 2019 as a result of the decreased average number of R&D employees in 2019 due to the Company's efforts to streamline its corporate structure. The decrease was also due to a deemed share-based payment of RMB2.5 million recognised in 2018 while there was no such expense in 2019. The deemed share-based payment was related to the non-reciprocal capital contributions made by the Group to the non-wholly owned subsidiaries of which the non-controlling shareholders are employees. In addition, the decrease in our R&D costs was also due to the decrease in share-based compensation of approximately RMB2.8 million.

Finance costs

Finance costs increased by approximately 40.3% from approximately RMB1.9 million for the year ended 31 December 2018 to approximately RMB2.7 million for the year ended 31 December 2019. The increase was primarily due to the increase in interest expenses on time loans taken out by the Company as financial leverage for life insurance policies and general working capital from approximately RMB1.9 million for the year ended 31 December 2018 to approximately RMB2.2 million for the year ended 31 December 2019 as a result of the higher interest rates and the appreciation of HKD against RMB. The increase was also due to the recognition of interest on lease liability under IFRS 16 of approximately RMB0.5 million for the year ended 31 December 2019 while no such expenses were recognised in 2018.

Other expenses

Other expenses decreased significantly by approximately 87.1% from approximately RMB5.2 million for the year ended 31 December 2018 to approximately RMB0.7 million for the year ended 31 December 2019. The decrease was primarily due to the recognition of an impairment loss of goodwill of approximately RMB3.9 million related to the Company's acquisition of two subsidiaries, Xiamen Veewo Games Co., Ltd. (廈門微沃時刻科技有限公司) ("**Xiamen Veewo**") and Shenzhen Zhangxin Interactive Technology Co., Ltd. (深圳掌心互動科技有限公司) ("**Shenzhen Zhangxin**") in 2018, while there was no such impairment made in 2019. The impairment loss was made as the recoverable amount of the Super Phantom Cat cash-generating unit and Shenzhen Zhangxin cash-generating unit to which the goodwill was related was less than the carrying amount of the goodwill.

Income tax expense

Income tax expense decreased by approximately 38.8% from approximately RMB2.3 million for the year ended 31 December 2018 to approximately RMB1.4 million for the year ended 31 December 2019, which was mainly resulted from the decrease in revenue and decrease in profits of the subsidiaries which were not exempted from income tax.

Loss for the year

As a result of the above, the loss for the year decreased by approximately 25.8% from approximately RMB119.5 million for the year ended 31 December 2018 to approximately RMB88.7 million for the year ended 31 December 2019. Loss attributable to owners of the parent decreased by approximately 25.3% from approximately RMB107.5 million for the year ended 31 December 2018 to approximately RMB80.3 million for the year ended 31 December 2019.

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

In addition to our unaudited 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 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. 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		
	2019	2018	**Change %**
	(RMB'000)	*(RMB'000)*	
	(unaudited)	(audited)	
Loss for the year attributable to owners of the parent	**(80,342)**	(107,508)	(25.3)
Add:			
Share-based compensation	**1,622**	13,411	(87.9)
Total	**(78,720)**	(94,097)	(16.3)

Financial Position

As at 31 December 2019, total equity of the Group amounted to approximately RMB509.7 million, compared with approximately RMB578.0 million as at 31 December 2018. The decrease was mainly due to the loss of approximately RMB88.7 million recognised for the year ended 31 December 2019, and was partially offset by the changes in fair value of the Group's debt investments and transfer of fair value reserve upon disposal of the equity investments of approximately RMB15.0 million recognised in other comprehensive income.

As at 31 December 2019, the Group recorded net current assets of approximately RMB77.2 million, representing a decrease of 28.3% compared with approximately RMB107.7 million as at 31 December 2018. The decrease was mainly due to recognition of a bad debt on loans to our associated company of approximately RMB14.1 million as disclosed in this announcement. The decrease in net current assets was also due to the decrease in deposits of approximately RMB5.1 million as a result of the return of lease deposits and litigation deposits in 2019.

Liquidity and Capital Resources

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

	2019 *(RMB'000)* **(unaudited)**	2018 *(RMB'000)* (audited)	**Change %**
Net cash flow used in operating activities	**(72,299)**	(121,729)	(40.6)
Net cash flow from investing activities	**131,314**	32,376	305.6
Net cash flow from financing activities	**17,466**	32,810	(46.8)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**76,481**	(56,543)	(235.3)
Cash and cash equivalents at the beginning of year	**104,922**	155,397	(32.5)
Effect of foreign exchange rate changes, net	**(2,185)**	6,068	(136.0)
Cash and cash equivalents at the end of year	**179,218**	104,922	70.8

Total cash and cash equivalents amounted to approximately RMB179.2 million as at 31 December 2019, compared with approximately RMB104.9 million as at 31 December 2018. The increase was primarily due to the consideration received from the disposal of 4.34% equity interest in TapTap which was approximately RMB108.5 million and the consideration received following the maturity of several straight bonds and convertible preference shares. The increase was partially offset by the utilisation of the Company's cash and cash equivalents used in operating activities.

As at 31 December 2019, approximately RMB53.3 million of the Company's financial resources (31 December 2018: RMB41.8 million) was held in deposits denominated in non-RMB currencies. The Company currently does not hedge transactions undertaken in foreign currencies but manages its foreign exchange exposure by limiting its foreign currency exposure which it constantly monitors. 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 were centralised and cash was generally deposited at banks and denominated mostly in Renminbi, Hong Kong dollars and United States dollars.

As at 31 December 2019, the Group had aggregate bank loans of approximately RMB126.5 million (31 December 2018: RMB93.0 million), of which approximately RMB74.4 million is repayable within one year, RMB46.6 million is payable after one year but within five years and approximately RMB5.5 million is payable after five years. The Group had lease liabilities of approximately RMB9.8 million, which are to be repaid based on the agreed repayment schedule ranging from 2 to 3 years as set out in the agreements. The increase in lease liabilities was mainly due to additional leases undertaken by the Group for rental of office facilities during the period and the increase in rights-of-use assets upon the adoption of IFRS 16.

As at 31 December 2019, the Group's bank loans included time loan of approximately HK$67.7 million (31 December 2018: HK$65.5 million) with an interest rate of 3.776% which was secured by certain life insurance policies as detailed below. In addition, this was used by the Company as financial leverage for the life insurance policies and bank loan for the construction of the Company's R&D centre of approximately RMB56.1 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 and Debt Investments at Fair Value Through Profit or Loss

As at 31 December 2019, 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 RMB197.9 million (31 December 2018: RMB357.9 million), which represented the straight bonds and convertible bond issued by banks or reputable companies, with Standard & Poor ("**S&P**") ratings above BB – and coupon rates ranged from 4.5% 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 six 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 policies 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 charged 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 2019 were not protected. The fair value of debt investments at fair value through other comprehensive income, debt investments at fair value through profit or loss in straight bonds and convertible bonds had been estimated using a discounted cash flow valuation model based on assumptions that were 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 2019 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 2019** *(RMB'000)*	**Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the year ended 31 December 2019** *(RMB'000)*	**Fair value as at 31 December 2019** *(RMB'000)*	**Percentage of total FVOCI and FVPL Investments at 31 December 2019**	**Percentage of total assets of the Group as at 31 December 2019**
Huarong Finance II Co., Ltd. ("**Huarong Finance II**")	1	57	32	1,426	0.7%	0.2%
Huarong Finance 2017 Co., Ltd. ("**Huarong Finance 2017**")	2	908	3,682	22,529	11.4%	3.1%
The Bank of East Asia, Limited ("**BEA**")	3	200	–	–	–	–

Notes:

1. Please refer to note 21 to the unaudited financial statements for 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 keepwell deed and a deed of equity interest purchase, investment and liquidity support undertaking by China Huarong. China Huarong (together with its subsidiaries, "**Huarong Group**") is a leading asset management company ("**AMC**") and one of the four largest state-owned AMCs in the PRC. The principal businesses of Huarong Group are distressed asset management, financial intermediary services, principal investments, banking, financial leasing, securities, trust and special asset management.

   Pursuant to the interim results announcement of Huarong Group for the six months ended 30 June 2019, Huarong Group recorded a total income of approximately RMB56,810 million and profit for the period of approximately RMB2,812 million. Despite the complicated and tightening macroeconomic condition and tight regulatory environment, the Huarong Group's operating results achieved a stable recovery, resulting from its proactive return to the core businesses, downsizing and risk resolution, along with continual efforts in risk management and business capacity enhancement, as Huarong Group pursued stability in overall operation and advancement in core business.

   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 21 to the unaudited financial statements for 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. On 27 June 2017 and 28 June 2017, the Group invested in a bond issued by BEA 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). On 7 November 2019, the remaining part of the above straight bond with an aggregated nominal amount of US$700,000 was fully redeemed by BEA in advance of the maturity date at an aggregated consideration of US$700,000 (equivalent to approximately RMB4.9 million). Please refer to note 21 to the unaudited financial statements and the 2018 annual report of the Company for details.

(B) Convertible Bond

Name of the convertible bond	*Note*	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2019 *(RMB'000)*	Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2019 *(RMB'000)*	Fair value as at 31 December 2019 *(RMB'000)*	Percentage of total FVOCI and FVPL Investments at 31 December 2019	Percentage of total assets of the Group as at 31 December 2019
Standard Chartered PLC	*1*	896	548	14,286	7.2%	2.0%

Notes:

1. Please refer to note 21 to the unaudited financial statements for 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 2019, Standard Chartered Group recorded the operating income of approximately US$15,417 million and profit for the period of approximately US$2,340 million. Standard Chartered Group continued to move forwards and upwards in 2019 despite the external uncertainties. Standard Chartered Group will continue to maximise opportunities on the one hand and maintain appropriate risk control on the other.

   The Group believes that Standard Chartered Group will improve returns in a strong sale and sustainable manner 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 2019 *(RMB'000)*	Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2019 *(RMB'000)*	Fair value as at 31 December 2019 *(RMB'000)*	Percentage of total FVOCI and FVPL Investments at 31 December 2019	Percentage of total assets of the Group as at 31 December 2019
Industrial and Commercial Bank of China Limited ("**ICBC**")	*1*	2,067	–	–	–	–
China Cinda Asset Management Co., Ltd. ("**Cinda**")	2	–	–	–	–	–

Notes:

1. On 18 February 2015, the Group invested in convertible preferred shares issued by ICBC 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 10 December 2019, the above convertible preferred shares with an aggregated nominal amount of US$5,000,000 was fully redeemed by ICBC in advance of the maturity date at an aggregated consideration of US$5,000,000 (equivalent to approximately RMB35.2 million). Please refer to note 21 to the unaudited financial statements and the 2018 annual report of the Company for details.

2. On 30 September 2016, the Group invested in convertible preferred shares issued by Cinda. 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. On 4 January 2019, the Group sold the above convertible preferred shares with an aggregated nominal amount of US$1,500,000 at an aggregated consideration of US$1,343,000 (equivalent to approximately RMB9.2 million). Please refer to note 21 to the unaudited financial statements and the 2018 annual report of the Company for details.

(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 2019 *(RMB'000)*	Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2019 *(RMB'000)*	Fair value as at 31 December 2019 *(RMB'000)*	Percentage of total FVOCI and FVPL Investments at 31 December 2019	Percentage of total assets of the Group as at 31 December 2019
Investment in life insurance policies	*1*	–	4,154	98,977	50.0%	13.5%

Note:

1. Please refer to note 21 to the unaudited 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 recognised in the consolidated profit or loss of the Group before the Group terminate the life insurance policies and the accumulated interests earned were reflected in changes in cash value of the life insurance policies. The fair value changes were recognised in the consolidated statement of profit or loss.

(E) Unlisted Equity Investments

Company Name	*Notes*	**Percentage of shareholdings at 31 December 2019**	**Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the year ended 31 December 2019** *(RMB'000)*	**Fair value as 31 December 2019** *(RMB'000)*	**Percentage of total FVOCI and FVPL investments 31 December 2019**	**Percentage of the total assets of the Group as 31 December 2019**
Ewan	*1*	–	–	–	–	–
Xiamen eName Technology Co., Ltd.	2	2.0%	3,038	17,001	8.6%	2.3%
Others	3	–	2,189	6,055	3.1%	0.8%

Notes:

1. 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%. As disclosed in the announcement of the Company dated 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 the Group in Ewan) at a total cash consideration of RMB108,500,000. Upon completion of the disposal in June 2019, the Group no longer held any interest in Ewan.

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

   Pursuant to the eName's interim report for the six months ended 30 June 2019, eName recorded revenue of approximately RMB67.8 million and net loss after tax of approximately RMB73,000. The decrease in revenue and the net loss recorded were mainly attributable to the complicated and tightening macroeconomic condition, the tight regulatory environment of Intellectual property industry and the depressed domain business market. However, eName has established the leading position in the domain transaction and service industry through mature technical support, convenient transaction procedure and humanized service management and it will be committed to develop and expand the domain transaction and service business as well as the emerging trademark business.

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

3. Others comprised three (3) unlisted limited liability companies and none of these investments accounted for more than 0.5% of the total assets of the Group as at 31 December 2019.

(F) Unlisted Debt Investments

Company Name	*Notes*	Percentage of shareholdings at 31 December 2019	Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2019 *(RMB'000)*	Fair value as 31 December 2019 *(RMB'000)*	Percentage of total FVOCI and FVPL investments 31 December 2019	Percentage of the total assets of the Group as 31 December 2019
APOLLO CAPITAL L.P. ("**APOLLO**")	*1*	–	1,298	–	–	–
Future Capital Discovery Fund II, L.P. ("**Future Capital**")	2	1.8797%	1,347	17,715	9.0%	2.4%
Others	*3*	–	(2,211)	19,925	10.1%	2.7%

Notes:

1. In 2016, the Group invested US$5,000,000 in APOLLO, 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). In 2019, APOLLO disposed all of the underlying investment under the partnership agreement and the subscription agreement signed by the Group and returned the remaining part of the investment principle and related gains of RMB16,440,000 in total to the Group in June 2019. Please refer to the annual report of the Company for the year ended 31 December 2018 for details of the above investment.

2. Future Capital is an unlisted limited partnership principally engaged in investment in companies which are primarily in the sectors of intelligent system, auto system and information technology to achieve earnings in the form of medium to long term capital appreciation.

   Pursuant to Future Capital's financial statements for the year ended 31 December 2019, Future Capital recorded income of approximately US$3,958 and net increase in partners' capital resulting from operations of approximately US$9.5 million. Future Capital expected to realise most of its investments at a later stage in order to enjoy a higher capital appreciation.

   During the year ended 31 December 2019, the Group received distribution of proceeds related to the Partnership's partial exit from one investment in the amount of US$40,770.68 (equivalent to approximately RMB281,000) from Future Capital Discovery Fund II, L.P.

   The Group believes that Future Capital has sufficient capital and is managed by an experienced management team and the sectors it invests in have positive future and its future business prospect is positive and is expected to grow continuously.

3. Others comprised two (2) unlisted debt investments and none of these investments accounted for more than 1.4% of the total assets of the Group as at 31 December 2019.

There was no impairment made for any investments in debt instruments for the year ended 31 December 2019. 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 30.2% as at 31 December 2019 as compared with 25.6% as at 31 December 2018.

Capital expenditures

The following table sets forth our capital expenditures for the year ended 31 December 2019 and 2018:

	For the year ended 31 December		
	2019	2018	**Change %**
	(RMB'000)	*(RMB'000)*	
Property, plant and equipment	**1,495**	2,971	(49.7)
Construction in progress	**49,123**	45,927	7.0
Total	**50,618**	48,898	3.5

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 improvement. The total capital expenditures for the year ended 31 December 2019 were approximately RMB50.6 million compared with RMB48.9 million for the year ended 31 December 2018, representing an increase of approximately 2.9%, which was primarily due to the increase in construction costs for our R&D centre and headquarters building in Xiamen, the PRC from approximately RMB45.9 million for the year ended 31 December 2018 to approximately RMB49.1 million for the year ended 31 December 2019. The increase was partially offset by the decrease in purchase of office equipment, motor vehicles and leasehold improvement from approximately RMB1.9 million for the year ended 31 December 2018 to approximately RMB7,000 for the year ended 31 December 2019 as a result of the setting up our Shenzhen office and development team in the first half of 2018.

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

Disposal of 4.34% Equity Interest in Tap Tap

As disclosed in the announcement of the Company dated 31 January 2019, Xiamen Youli as the seller, entered into share purchase agreements to dispose of an aggregate of 4.34% equity interest in Ewan (representing the entire equity interest then held by Xiamen Youli in Ewan) for a total cash consideration of RMB108,500,000. Upon completion of the disposal in June 2019, Xiamen Youli no longer held any interest in Ewan. As at 31 December 2019, the total cash consideration of RMB108,500,000 has been received. This disposal provided 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.

Proposed acquisition of the entire issued share capital of Sharelink and Termination of the transaction in relation to the acquisition

On 2 April 2019, Star Winner (an indirect wholly-owned subsidiary of the Company) as the purchaser (the "**Purchaser**"), YAO Holdings Limited, Longling Capital Ltd, Advance Access International Limited and Billion Champion Enterprises Corporation as the vendors (collectively referred to as the "**Vendors**"), and Mr. YAO Jianjun, Mr. CAI Wensheng, Mr. LI Weiping and Ms. ZHOU Chunlan as the warrantors (collectively referred to as the "**Warrantors**") entered into a share purchase agreement (the "**Share Purchase Agreement**"), pursuant to which, the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to sell, an aggregate of 10,000 shares in Sharelink, representing its entire issued share capital, which is owned as to 100% by the Vendors, at a total consideration of HK$286,443,813, which shall be settled by the allotment and issue of 818,410,895 new Shares by the Company at an issue price of HK$0.35 per new Share. For details, please refer to the Company's announcement dated 2 April 2019 and the circular (the "**Circular**") dated 5 June 2019.

However, since the dispatch of the Circular, the Company has received queries from various Shareholders on, among other things, the reasons for and payment structure of the acquisition as well as the dilution effect on the issuance of the consideration shares on their own shareholding. After careful consideration of the enquiries and view of the Shareholders, the Parties entered into the a termination deed on 12 July 2019 (the "**Termination Deed**"), pursuant to which (i) the Parties agreed to terminate the Share Purchase Agreement and all agreements and transactions contemplated thereunder (whether or not the relevant transactions have been started or are in progress) and release the Parties from all obligations and duties under the share purchase agreement with effect immediately upon the entering into of the Termination Deed; and (ii) the Parties undertake not to claim for any damages or claims of any nature, nor file any litigation nor propose any other legal procedures against other Parties, and at the same time agree to waive all relevant claims and rights of recourse. The Company may re-negotiate with the Vendors in relation to the terms of the acquisition of the entire issued share capital of Sharelink, including but not limited to the structure of the deal and payment method, subject to compliance with the Takeovers Code and the Listing Rules. For details, please refer to the Company's announcements dated 12 and 24 July 2019.

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

On 25 June 2019, the Company entered into a supplemental agreement to decrease the amount of investment made by the Company 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 central bank of the Philippines, from RMB20.0 million to RMB13.0 million. With the supplemental agreement taking effect, the Company's ownership of Global OW decreased from 20% to 13%. As at 31 December 2019, the Company has invested all the RMB13.0 million into Global OW.

Save as 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 2019. Apart from those disclosed in this announcement, there was no plan authorised by the Board for other significant investment or acquisition of major capital assets or other businesses in 2020. However, the Group will continue to identify new opportunities for business development.

Pledge of Assets

As at 31 December 2019, a bank loan of the Group amounting to HK$67.7 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$14.2 million. As at 31 December 2019, a bank loan of the Group of approximately RMB56.1 million (under a loan facility of up to RMB120.0 million) was used for the construction of the Company's R&D centre, 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 RMB206.0 million.

Contingent liabilities and guarantees

As at 31 December 2019, 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 2019, we had 387 full-time employees, the majority of whom are based in Xiamen, the PRC. The following table sets forth the number of our employees segregated by their functions as at 31 December 2019:

	Number of Employees	% of Total
Development	234	60.4
Operations	75	19.4
Administration	75	19.4
Sales and marketing	3	0.8
Total	387	100.0

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

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

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

Foreign currency risk

In the year ended 31 December 2019, 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 2019)**	**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%	92,641	–
Establishing and expanding international operations in selected overseas markets	69,480	15%	58,358	11,122
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%	452,080	11,122

Note: The figures above are approximate figures.

As at 31 December 2019, the Group had utilised the net proceeds from the Global Offering of RMB452.1 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 the net proceeds of approximately RMB11.1 million are currently placed with reputable banks as the Group's cash and cash equivalents, and is intended to be used for establishing and expanding our international operations in selected overseas markets, in particular for promoting certain new games planned to be launched by our newly set up overseas game distribution and operation team in overseas markets in the first half of 2020, and the budgeted amount is expected to cover the selling & marketing expenses till the end of 2020.

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 greener.

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), Provisions on Ecological Governance of Network Information Content (2019), Notice Regarding Commencement of Authentication of Real Names for Anti-addiction System on Online Games and Notice by the General Administration of Press and Publication of Preventing Minors from Indulging in 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 Takecovers Code, 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.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

	Notes	2019 *RMB'000* unaudited	2018 *RMB'000* audited
REVENUE	*4*	**112,851**	83,250
Cost of sales		**(34,781)**	(59,479)
Gross profit		**78,070**	23,771
Other income and gains	*4*	**14,333**	33,488
Selling and distribution expenses		**(29,257)**	(10,629)
Administrative expenses		**(75,387)**	(60,207)
Research and development costs		**(70,448)**	(93,633)
Finance costs		**(2,672)**	(1,904)
Other expenses		**(670)**	(5,179)
Share of losses of associates		**(1,280)**	(2,899)
LOSS BEFORE TAX	*5*	**(87,311)**	(117,192)
Income tax expense	*6*	**(1,388)**	(2,268)
LOSS FOR THE YEAR		**(88,699)**	(119,460)
Attributable to:			
Owners of the parent		**(80,342)**	(107,508)
Non-controlling interests		**(8,357)**	(11,952)
		(88,699)	(119,460)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
– Basic and diluted		**RMB(0.05)**	RMB(0.07)

	Note	2019 RMB'000 unaudited	2018 RMB'000 audited
LOSS FOR THE YEAR		**(88,699)**	(119,460)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Debt investments at fair value through other comprehensive income:			
Changes in fair value		**3,426**	(1,690)
Reclassification adjustments for losses included in the consolidated statement of profit or loss	*4*	**86**	295
Exchange differences on translation of financial statements		**3,825**	12,015
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**7,337**	10,620
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		**12,819**	30,105
Income tax effect		**(1,318)**	(5,238)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**11,501**	24,867
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**18,838**	35,487
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(69,861)**	(83,973)
Attributable to:			
Owners of the parent		**(61,512)**	(71,685)
Non-controlling interests		**(8,349)**	(12,288)
		(69,861)	(83,973)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2019**	2018
		RMB'000	*RMB'000*
		unaudited	audited
NON-CURRENT ASSETS			
Property, plant and equipment		**110,214**	60,680
Right-of-use assets		**110,804**	–
Prepaid land lease payments		**–**	100,797
Goodwill	*9*	**20,121**	20,121
Other intangible assets		**2,898**	3,642
Investments in associates		**28,208**	36,067
Prepayments, other receivables and other assets	*11*	**13,781**	17,476
Equity investments designated at fair value through other comprehensive income	*12*	**23,056**	28,081
Debt investments at fair value through profit or loss	*12*	**150,905**	196,194
Debt investments at fair value through other comprehensive income	*12*	**23,955**	25,076
Deferred tax assets		**3,512**	4,145
Total non-current assets		**487,454**	492,279
CURRENT ASSETS			
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	*10*	**32,106**	21,980
Prepayments, other receivables and other assets		**20,302**	41,777
Equity investments designated at fair value through other comprehensive income		**–**	108,500
Other current assets		**11,650**	7,154
Cash and cash equivalents		**179,218**	104,922
Total current assets		**243,276**	284,333
CURRENT LIABILITIES			
Other payables and accruals		**84,362**	85,168
Interest-bearing bank and other borrowings		**74,358**	83,694
Tax payable		**2,960**	2,664
Contract liabilities		**4,352**	5,072
Deferred revenue		**–**	54
Total current liabilities		**166,032**	176,652
NET CURRENT ASSETS		**77,244**	107,681
TOTAL ASSETS LESS CURRENT LIABILITIES		**564,698**	599,960

	2019	2018
	RMB'000	*RMB'000*
	unaudited	audited
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**52,116**	9,340
Deferred tax liabilities	**62**	8,601
Contract liabilities	**2,785**	4,045
Total non-current liabilities	**54,963**	21,986
Net assets	**509,735**	577,974
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1**	1
Share premium	**498,453**	498,453
Reserves	**28,163**	88,053
	526,617	586,507
Non-controlling interests	**(16,882)**	(8,533)
Total equity	**509,735**	577,974

NOTES TO THE UNAUDITED 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		Principal activities
				Direct	Indirect	
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 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. ("Shenzhen Feiyuxingkong")	PRC/Mainland China	RMB1,000,000	23 February 2017	–	100	Game development and distribution

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for 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 unaudited 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 2019. 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 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRSs 2015-2017 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) IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases – Incentives* and ISIC-Int *27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were 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 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB'000* unaudited
Assets	
Increase in right-of-use assets	105,328
Decrease in prepaid land lease payments	(100,797)
Decrease in prepayments, other receivables and other assets	(2,755)
Increase in total assets	1,776
Liabilities	
Increase in interest-bearing bank and other borrowings	1,776
Increase in total liabilities	1,776
Decrease in retained profits	–
Decrease in non-controlling interests	–

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000 unaudited
Operating lease commitments as at 31 December 2018	4,905
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(2,900)
	2,005
Weighted average incremental borrowing rate as at 1 January 2019	6%
Discounted operating lease commitments as at 1 January 2019	1,776
Lease liabilities as at 1 January 2019	1,776

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

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*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
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.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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 resource 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 2019 (2018: Nil).

4. REVENUE, OTHER INCOME AND GAINS

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

	2019	2018
	RMB'000	*RMB'000*
	unaudited	audited
Type of goods or service		
Online web and mobile games	**51,700**	64,905
Single-player mobile games	**7,526**	4,045
Game operation	**59,226**	68,950
– Gross basis	**6,059**	8,906
– Net basis	**53,167**	60,044
Online game distribution	**30,885**	940
Licensing income	**10,487**	6,875
Advertising revenue	**11,430**	6,169
Sale of goods	**59**	14
Technical service income	**764**	302
Total revenue from contracts with customers	**112,851**	83,250
Timing of revenue recognition		
Services transferred over time	**10,487**	6,875
Services and goods transferred at a point of time	**102,364**	76,375
Total revenue from contracts with customers	**112,851**	83,250
Other income		
Government grants	**6,287**	13,125
Interest income	**5,737**	8,275
Rental income	**450**	–
	12,474	21,400
Gains		
Fair value gains, net:		
Financial assets (transfer from equity on disposal)	**406**	10,872
Dividend income from debt investments designated at fair value through profit or loss	**281**	626
Gain on disposal of items of property, plant and equipment	**716**	4
Others	**456**	586
	1,859	12,088
	14,333	33,488

5. LOSS BEFORE TAX

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

	2019 *RMB'000* unaudited	2018 *RMB'000* audited
Channel costs	**2,246**	3,265
Rental fee	**5,684**	11,470
Depreciation of property, plant and equipment	**3,757**	5,026
Depreciation of right-of-use assets	**4,116**	–
Amortisation of intangible assets	**744**	489
Impairment of goodwill*	**–**	3,926
Impairment of financial assets included in prepayments, other receivables and other assets	**20,509**	–
Advertising expenses	**25,233**	5,067
Auditor's remuneration	**2,100**	2,100
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**85,030**	105,707
Pension scheme contributions	**7,215**	12,819
Equity-settled share option expense	**1,622**	10,961
Other compensation expenses	**–**	2,450
	93,867	131,937
Foreign exchange differences, net*	**481**	173
(Gain)/loss on disposal of items of property, plant and equipment, net	**(697)**	11

* 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 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 generated taxable profit, followed by a 50% reduction for the next three years. 2015 and 2016 were the first profitable years for Xiamen Guangling and Xiamen Feixin, respectively. Xiamen Youli, Kailuo Tianxia and Xiamen Yidou were qualified as High and New Technology Enterprises ("HNTEs") and entitled to a preferential income tax rate of 15% in 2019.

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 2019, 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 RMB423,301,000 at 31 December 2019 (2018: RMB409,239,000).

	2019	2018
	RMB'000	*RMB'000*
	unaudited	audited
Current tax expense	**2,992**	1,766
Deferred tax	**(1,604)**	502
Total tax expense for the year	**1,388**	2,268

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:

	2019	2018
	RMB'000	*RMB'000*
	unaudited	audited
Loss before tax	**(87,311)**	(117,192)
Tax at the applicable tax rate	**(20,268)**	(27,896)
Lower tax rates enacted by local authorities	**(1,316)**	(2,811)
Expenses not deductible for tax	**555**	5,120
Other tax credit	**(8,001)**	(10,961)
Income not subject to tax	**(76)**	(971)
Tax losses utilised from previous years	**(2,703)**	(1,078)
Deferred tax assets not recognised	**33,197**	40,865
Tax expense	**1,388**	2,268

7. DIVIDENDS

The Board does not recommend the payment of a final dividend to the ordinary equity holders of the Company for the year ended 31 December 2019 (for the year ended 31 December 2018: 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 1,546,943,455 (2018: 1,539,526,550) 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 years ended 31 December 2019 and 2018 in respect of a dilution as the impact of the share options outstanding had an anti-dilution effect in the basic loss per share amounts presented.

9. GOODWILL

	RMB'000
Cost at 1 January 2018, net of accumulated impairment	24,047
Impairment during the year	(3,926)
At 31 December 2018 (audited)	20,121
At 31 December 2018 (audited)	
Cost	432,278
Accumulated impairment	(412,157)
Net carrying amount	20,121
Cost at 1 January 2019, net of accumulated impairment	20,121
Impairment during the year	–
At 31 December 2019 (unaudited)	20,121
At 31 December 2019 (unaudited)	
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:

- Veewo 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 a five-year period approved by the board of directors. The discount rates applied to the cash flow projections are 21% to 22% (2018: 21% to 31%). 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:

	2019	2018
	RMB'000	*RMB'000*
	unaudited	audited
Veewo cash-generating unit	**11,040**	11,040
Shenzhen Zhangxin cash-generating unit	**8,694**	8,694
Sanguo Zhiren cash-generating unit	**387**	387
Carrying amount of goodwill	**20,121**	20,121

Assumptions were used in the value in use calculation of the cash-generating units for the years ended 31 December 2019 and 31 December 2018. 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:

	2019 ***RMB'000*** **unaudited**	2018 *RMB'000* audited
Within 3 months	**32,106**	21,980

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 2019 (unaudited)

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
Expected credit loss rate	**–**	**–**	**–**	**–**	**–**
Gross carrying amount (RMB'000)	**32,106**	**–**	**–**	**–**	**32,106**
Expected credit losses (RMB'000)	**–**	**–**	**–**	**–**	**–**

As at 31 December 2018 (audited)

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

11. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019	2018
	RMB'000	*RMB'000*
	unaudited	audited
Non-current		
Prepayments	**13,345**	14,697
Prepaid land lease payments related deposits	**1,605**	1,605
Other receivables	**3,436**	1,174
	18,386	17,476
Impairment allowance	**(4,605)**	–
	13,781	17,476
Current		
Prepayments	**7,486**	11,786
Deposits	**6,404**	11,517
Other receivables	**22,316**	18,474
	36,206	41,777
Impairment allowance	**(15,904)**	–
	20,302	41,777

The movements in the loss allowance for impairment of other receivables are as follows:

	2019	2018
	RMB'000	*RMB'000*
	unaudited	audited
At beginning of year	**3,000**	3,000
Impairment losses recognised	**20,509**	–
At end of year	**23,509**	3,000

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. Except for prepayments, other receivables and other assets amounting to RMB23,509,000 (2018: Nil) included in the above balances, the above assets are neither past due nor impaired. Other than the aforementioned impaired receivables, the financial assets included in the above balances related to receivables for which there was no recent history of default.

12. 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

	Notes	**2019** ***RMB'000*** **unaudited**	2018 *RMB'000* audited
Debt investments at fair value through other comprehensive income			
Straight bonds	*(1)*	**23,955**	25,076
Equity investments designated at fair value through other comprehensive income			
Equity investments, at fair value	*(2)*		
Non-current		**23,056**	28,081
Current		**–**	108,500
		23,056	136,581
Debt investments at fair value through profit or loss			
Unlisted debt investments, at fair value	*(3)*	**37,642**	44,045
Convertible bond	*(4)*	**14,286**	13,738
Convertible preferred shares	*(5)*	**–**	43,588
Investment in life insurance policies	*(6)*	**98,977**	94,823
		150,905	196,194

(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 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 BEA 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). On 7 November 2019, the remaining part of the above straight bond with an aggregated nominal amount of US$700,000 was fully redeemed by BEA in advance of the maturity date at an aggregated consideration of US$700,000 (equivalent to approximately RMB4.9 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 January 2019, the Group sold its equity interest in Ewan Shanghai Network Technology Co., Ltd. as this investment no longer coincided with Group's investment strategy. The fair value on the date of disposal was RMB108,500,000.

(3) In 2019, the Group disposed certain of the underlying investment under partnership agreement. The fair value on the date of disposal was RMB16,440,000.

During the year ended 31 December 2019, the Group received dividends in the amount of RMB281,000 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 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.

(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 10 December 2019, the above convertible preferred shares with an aggregate nominal amount of US$5,000,000 were fully redeemed by ICBC in advance of the maturity date at an aggregate consideration of US$5,000,000 (equivalent to approximately RMB35.2 million).

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. On 4 January 2019, the Group sold the above convertible preferred shares with a nominal amount of US$1,500,000 at a consideration of US$1,343,000 (equivalent to approximately RMB9.2 million).

The declaration of a 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 2019, the insurance premium was pledged to a bank to secure a short term advance facility granted to the Group.

13. SHARE CAPITAL

Shares

	2019 unaudited	2018 audited
Issued and fully paid or credited as fully paid:		
Ordinary shares of US$0.0000001 each	**1,546,943,455**	1,546,943,455
Equivalent to RMB'000	**1**	1

A summary of movements in the Company's share capital is as follows:

	Number of issued and fully paid ordinary shares	**Nominal value of ordinary shares** *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 1 January 2018	**1,546,901,955**	**1**	490,934	490,935
RSUs exercised	**7,000,000**	**–**	7,616	7,616
Share options exercised	**6,066,000**	**–**	9,869	9,869
Cancellation of repurchased shares (a)	**(13,024,500)**	**–**	(9,966)	(9,966)
At 31 December 2018	**1,546,943,455**	**1**	498,453	498,454
At 31 December 2019	**1,546,943,455**	**1**	498,453	498,454

(a) ***Repurchase of shares***

The Company cancelled 13,024,500 repurchased shares with a carrying amount of RMB9,966,000 during the year 2018.

14. EQUITY-SETTLED SHARE-BASED PAYMENTS

(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 expired 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 options 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:

	2019		2018	
	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	**0.94**	**72,029**	0.89	83,313
Forfeited during the year	**1.75**	**(3,500)**	0.55	(4,813)
Exercised during the year	**–**	**–**	0.55	(6,066)
Expired during the year	**0.57**	**(39,729)**	0.55	(405)
At 31 December	**1.35**	**28,800**	0.94	72,029

No share options exercised during the year. The weighted average share price at the date of exercise for the share options exercised during 2018 was HK$0.87 per share.

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

2019

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
3,000	3.93	10-06-2016 to 09-06-2025
6,300	1.26	31-12-2017 to 26-03-2027
3,000	1.26	30-06-2017 to 26-03-2027
1,500	1.10	15-05-2018 to 14-05-2027
15,000	1.03	13-11-2018 to 12-11-2027
28,800		

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		

* 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.

At the end of the reporting period, the Company had 28,800,000 share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 28,800,000 additional ordinary shares of the Company, an additional share capital of approximately RMB20 and a share premium of approximately RMB36,299,000.

The Group recognised total share option expenses of RMB1,622,000 for the year ended 31 December 2019 (2018: RMB6,609,000).

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

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

The total number of the ordinary share 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 nil, of which the Group recognised a total RSU award expense of nil in the year 2019 (2018: RMB4,352,000).

As at 31 December 2018 and 2019, there were no RSUs outstanding under the Post-IPO RSU Plan.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

Annual General Meeting

The 2020 annual general meeting (the "**AGM**") of the Company is scheduled to be held on Wednesday, 27 May 2020. 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 2019, neither the Company, its subsidiaries nor any of the PRC Operating Entities has purchased, sold or redeemed any of the Company's listed securities.

Final Dividend

The Board did not declare a final dividend for the year ended 31 December 2019 (the year ended 31 December 2018: Nil).

Closure of Register of Members

The register of members of the Company will be closed from Friday, 22 May 2020 to Wednesday, 27 May 2020, 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 Wednesday, 27 May 2020. 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 Thursday, 21 May 2020.

REVIEW OF UNAUDITED ANNUAL RESULTS

Due to travel restrictions in force in parts of the PRC to combat the recent epidemic of the coronavirus (COVID-19), certain audit procedures for the annual results of the Group for the year ended 31 December 2019 required to be conducted by the auditors of the Company could not be completed by the date of this announcement, and therefore the unaudited annual results contained herein have not been agreed with the Company's auditors.

The unaudited annual results contained herein have been reviewed by the Audit Committee.

A supplemental announcement relating to the audited annual results of the Group for the year ended 31 December 2019 will be made by the Company as soon as the auditing process is completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants, together with the material differences (if any) as compared with the unaudited annual results contained herein. The expected date that the results may be agreed with the auditors cannot be determined at this stage and depends largely on the development of COVID-19 in the PRC.

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 unaudited consolidated financial statements of the Company for the year ended 31 December 2019.

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 2019.

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.

Compliance with the Model Code

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 2019.

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 2019.

Publication of the 2019 Annual Report

This unaudited 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 2019 annual report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the abovementioned websites in due course.

APPRECIATION

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

The financial information contained herein in respect of the annual results of the Group for the year ended 31 December 2019 have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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
"Ewan"	Ewan (Shanghai) Network Technology Co., Ltd. (易玩(上海)網絡科技有限公司), a limited liability company established under the laws of the PRC, primarily engaged in developing and operating an emerging mobile game distribution platform, Tap Tap, and is one of the non-wholly owned subsidiaries of XD
"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
"IP"	Intellectual Property
"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 of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"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"	Meitu, Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands, shares of which are listed on the Main Board of the Stock Exchange (Stock Code:1357)
"Meitu Networks"	Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司), a limited liability company established under the laws of the PRC, is one of the important consolidated variable interest entities controlled through a series of contractual arrangement by Meitu
"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$0.0000001 each
"Shareholder(s)"	holder(s) of Shares
"Sharelink"	Sharelink Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability
"Star Winner"	Star Winner Asia Corporation, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong)
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission
"US$" 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 established in the PRC, which is an entity controlled through a series of contractual arrangement by XD Inc. (心動有限公司), an exempted company incorporated in the Cayman Islands with its shares listed on the Main Board of Stock Exchange (Stock code: 2400)
"Xiamen Chenxing"	Xiamen Chenxing Interactive Technology Co., Ltd. (廈門辰星互動信息科技有限公司), a limited company incorporated under the laws of the PRC on 25 October 2017
"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, 27 March 2020

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.