FORTUNET E-COMMERCE GROUP LIMITED
鑫網易商集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1039)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- Revenue of the Group increased to RMB204.1 million for the year ended 31 December 2019 (2018: approximately RMB51.0 million), representing an increase of approximately 300.2% as compared to 2018

- GMV from the Group's Digital Point business increased to approximately RMB330.0 million for the year ended 31 December 2019 (2018: approximately RMB174.0 million)

- The Group recorded a gross profit of approximately RMB0.8 million for the year ended 31 December 2019 (2018: gross loss of approximately RMB8.1 million)

- The Group recorded a loss of RMB195.1 million for the year ended 31 December 2019 (2018: approximately RMB263.9 million)

- The Board does not recommend the payment of any final dividend for the year ended 31 December 2019

The board (the "**Board**") of directors (the "**Directors**") of Fortunet e-Commerce Group Limited (the "**Company**") presents herewith the annual audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019
(Expressed in Renminbi ("RMB"))

	Note	**2019**	2018
		RMB'000	*RMB'000*
			(Note)
Revenue	*4*	**204,112**	50,977
Cost of sales		**(203,304)**	(59,068)
Gross profit/(loss)	*4(b)*	**808**	(8,091)
Other income	*5*	**4,210**	2,851
Selling and distribution expenses		**(37,255)**	(113,071)
Administrative expenses		**(75,716)**	(85,833)
Research and development costs		**(44,156)**	(49,300)
Impairment losses	*6*	**(36,779)**	(26,504)
Loss from operations		**(188,888)**	(279,948)
Finance (costs)/income	*7(a)*	**(5,662)**	17,137
Loss arising from changes in fair value on held-for-trading investments		**(512)**	(1,085)
Loss before taxation	*7*	**(195,062)**	(263,896)
Income tax	*8*	**–**	–
Loss for the year		**(195,062)**	(263,896)
Attributable to:			
Equity shareholders of the Company		**(78,295)**	(69,167)
Non-controlling interests		**(116,767)**	(194,729)
Loss for the year		**(195,062)**	(263,896)
Loss per share			
Basic (RMB)	*9(a)*	**(0.043)**	(0.038)
Diluted (RMB)	*9(b)*	**(0.043)**	(0.043)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 3.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019
(Expressed in RMB)

	2019 *RMB'000*	2018 *RMB'000* (Note)
Loss for the year	**(195,062)**	(263,896)
Other comprehensive income for the year (after tax):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements into the Group's presentation currency	**1,861**	3,511
Total comprehensive income for the year	**(193,201)**	(260,385)
Attributable to:		
Equity shareholders of the Company	**(76,434)**	(65,656)
Non-controlling interests	**(116,767)**	(194,729)
Total comprehensive income for the year	**(193,201)**	(260,385)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2019
(Expressed in RMB)

	Note	**At 31 December 2019** *RMB'000*	At 31 December 2018 *RMB'000* (Note)
Non-current assets			
Property, plant and equipment		**8,946**	9,396
Intangible assets		**–**	–
Goodwill		**–**	–
		8,946	9,396
Current assets			
Held-for-trading investments		**2,631**	3,062
Inventories		**1,733**	482
Trade and other receivables	*10*	**119,916**	67,065
Cash and cash equivalents		**137,839**	97,420
		262,119	168,029
Current liabilities			
Trade and other payables	*11*	**151,799**	43,478
Convertible bonds	*12*	**27,140**	44,435
Lease liabilities	*13*	**1,779**	–
		180,718	87,913
Net current assets		**81,401**	80,116
Total assets less current liabilities		**90,347**	89,512
Non-current liabilities			
Lease liabilities	*13*	**1,185**	–
NET ASSETS		**89,162**	89,512

	Note	**At 31 December 2019** *RMB'000*	At 31 December 2018 *RMB'000* (Note)
CAPITAL AND RESERVES	*17*		
Share capital		**117,812**	117,812
Reserves		**189,622**	228,171
Total equity attributable to equity shareholders of the Company		**307,434**	345,983
Non-controlling interests		**(218,272)**	(256,471)
TOTAL EQUITY		**89,162**	89,512

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 3.

NOTES

(Expressed in RMB unless otherwise indicated)

1 STATEMENT OF COMPLIANCE

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

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

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2019 comprise the Group.

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

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

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

For the year ended 31 December 2019, the Group had incurred net loss of RMB195,062,000 and net cash used in operating activities of RMB134,225,000. Notwithstanding the above, based on (i) a cash flow forecast of the Group for the twelve months ending 31 December 2020 prepared by the management, and (ii) the financial assistance to be provided by the immediate holding company of the Company in the form of drawing its available credit facilities to ensure the Group will be able to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period, the directors of the Company consider the use of the going concern basis in the preparation of the Group's consolidated financial statements for the year ended 31 December 2019 to be appropriate.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives,* and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impacts

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempted. As far as the Group is concerned, these newly capitalised leases are primarily in relation to properties as disclosed in Note 18.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in Note 18 at 31 December 2018 to the opening balance for lease liabilities recognised at 1 January 2019:

	1 January 2019 *RMB'000*
Operating lease commitments at 31 December 2018 *(Note 18)*	11,708
Less: commitments relating to short-term leases and leases of low-value assets exempted from capitalisation	(3,180)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	492
	9,020
Less: total future interest expenses	(1,071)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 *(Note 13)*	7,949

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to these leases recognised in the statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
	RMB'000	*RMB'000*	RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	9,396	8,484	17,880
Non-current assets	**9,396**	**8,484**	**17,880**
Trade and other receivables	67,065	(535)	66,530
Current assets	**168,029**	**(535)**	**167,494**
Lease liabilities (current)	–	7,330	7,330
Current liabilities	**87,913**	**7,330**	**95,243**
Net current assets	**80,116**	**(7,865)**	**72,251**
Total assets less current liabilities	**89,512**	**619**	**90,131**
Lease liabilities (non-current)	–	619	619
Non-current liabilities	**–**	**619**	**619**
Net assets	**89,512**	**–**	**89,512**

c. Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported loss from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A)	**Add back: HKFRS 16 depreciation and interest expense (B)**	**Deduct: Estimated amounts related to operating leases as if under HKAS 17 (Note (i)) (C)**	**Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C)**	Compared to amounts reported for 2018 under HKAS 17
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*
Financial results for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Loss from operations	**(188,888)**	**7,395**	**(8,240)**	**(189,733)**	(279,948)
Finance (costs)/income	**(5,662)**	**1,052**	**–**	**(4,610)**	17,137
Loss before taxation	**(195,062)**	**8,447**	**(8,240)**	**(194,855)**	(263,896)
Loss for the year	**(195,062)**	**8,447**	**(8,240)**	**(194,855)**	(263,896)

	2019			2018
	Amounts reported under HKFRS 16 (A)	**Estimated amounts related to operating leases as if under HKAS 17 (Notes (i) & (ii)) (B)**	**Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B)**	Compared to amounts reported for 2018 under HKAS 17
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Line items in the consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash used in operations	**(134,225)**	**(8,240)**	**(142,465)**	(245,831)
Net cash used in operating activities	**(134,225)**	**(8,240)**	**(142,465)**	(245,831)
Capital element of lease rentals paid	**(7,188)**	**7,188**	**–**	–
Interest element of lease rentals paid	**(1,052)**	**1,052**	**–**	–
Net cash generated from/(used in) financing activities	**171,867**	**8,240**	**180,107**	(30,108)

Notes

(i) The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

(ii) In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash used in operating activities and net cash generated from financing activities as if HKAS 17 still applied.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

Upon the cessation of the e-commerce business in 2018, the principal activities of the Group are the development and operation of an electronic trading platform to promote and facilitate awards earned by customers of loyalty programmes of other companies to be exchanged globally in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions. Further details regarding the Group's principal activities are disclosed in Note 4(b).

(i) Disaggregation of revenue

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

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines:		
– Revenue from facilitation of digital point business through operation of an electronic platform	**204,112**	50,321
– Revenue from trading of goods through operation of an electronic distribution platform	**–**	656
	204,112	50,977

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

The Group's customer base is diversified. There was no customer with whom transactions exceeded 10% of the Group's revenue for the year ended 31 December 2019 (2018: no customer with whom transactions exceeded 10%).

(b) Segment reporting

The Group manages its businesses by lines of business. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

(i) Segment results, assets and liabilities

For the purposes of disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and expenses incurred by those segments. The measure used for reporting segment result is gross profit/(loss). No inter-segment sales have occurred for the years ended 31 December 2019 and 2018. Assistance provided by one segment to another, including sharing of assets and technical know how, is not measured. The Group's other operating income and expenses, such as other income, selling and distribution expenses, administrative expenses, research and development costs, impairment losses, finance costs/income and loss arising from changes in fair value on held-for-trading investments, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

	Digital point business		**E-commerce business**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Disaggregated by timing of revenue recognition						
Point in time	**203,362**	45,542	**–**	656	**203,362**	46,198
Over time	**750**	4,779	**–**	–	**750**	4,779
Revenue from external customers and reportable segment revenue	**204,112**	50,321	**–**	656	**204,112**	50,977
Reportable segment gross profit/(loss)	**808**	(8,278)	**–**	187	**808**	(8,091)

(ii) Geographic information

All of the Group's revenue for the years ended 31 December 2019 and 2018 were generated from sales and services to customers in the People's Republic of China (the "PRC"). All of the non-current assets of the Group are either physically located or allocated to operations in the PRC.

5 OTHER INCOME

	2019	2018
	RMB'000	*RMB'000*
Interest income	**4,096**	2,714
Government grants	**108**	146
Net loss on disposal of property, plant and equipment	**–**	(9)
Others	**6**	–
	4,210	2,851

6 IMPAIRMENT LOSSES

	2019	2018
	RMB'000	*RMB'000*
Impairment losses on trade and other receivables	**36,779**	26,504

7 LOSS BEFORE TAXATION

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

(a) Finance costs/(income):

	2019	2018
	RMB'000	*RMB'000*
		(Note)
Finance charges on convertible bonds *(Note 12)*	**6,804**	11,385
Interest expenses on lease liabilities	**1,052**	–
	7,856	11,385
Net foreign exchange gain	**(478)**	(1,494)
Changes in fair value on the derivative components of convertible bonds *(Note 12)*	**(245)**	(26,438)
Gain on redemptions, extinguishment and recognition of convertible bonds *(Note 12)*	**(1,471)**	(590)
	5,662	(17,137)

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 3.

No borrowing costs have been capitalised for the year ended 31 December 2019 (2018: RMBNil).

(b) Staff costs#:

	2019	2018
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**92,402**	103,246
Contributions to defined contribution retirement plans	**9,360**	12,163
Equity-settled share-based payment expenses *(Note 14)*	**–**	18,133
	101,762	133,542

The employees of the subsidiaries of the Group established in the PRC (excluding Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby these subsidiaries are required to contribute to the schemes ranged from 16% to 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (excluding Hong Kong), from the above mentioned retirement schemes at their normal retirement age.

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

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

(c) Other items:

	2019	2018
	RMB'000	*RMB'000*
Cost of inventories#	**203,233**	58,713
Depreciation charge#		
– owned property, plant and equipment	**4,079**	3,445
– right-of-use assets*	**7,395**	–
Operating lease charges relating to short-term leases and leases of low-value assets	**3,099**	–
Minimum lease payments for lease previously classified as operating leases under HKAS 17*	**–**	11,756
Auditor's remuneration – audit services	**2,650**	2,580

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 3.

No staff cost or depreciation expense is included in cost of inventories for the year ended 31 December 2019 (2018: RMBNil).

8 INCOME TAX

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

	2019	2018
	RMB'000	*RMB'000*
Current and deferred taxation	–	–

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

	2019	2018
	RMB'000	*RMB'000*
Loss before taxation	**(195,062)**	(263,896)
Expected tax on loss before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**(42,695)**	(60,833)
Tax effect of non-deductible expenses	**8,606**	12,718
Tax effect of unused tax losses and deductible temporary differences not recognised	**34,089**	48,115
Income tax	–	–

Notes:

(i) The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2019 (2018: 16.5%). No provision for Hong Kong Profits Tax has been made, as the Company and the subsidiaries of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2019 (2018: RMBNil).

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

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2019 (2018: 25%).

9 LOSS PER SHARE

(a) Basic loss per share

The basic loss per share for the year ended 31 December 2019 is calculated based on the loss attributable to the equity shareholders of the company of RMB78,295,000 (2018: RMB69,167,000) and the weighted average of 1,810,953,000 ordinary shares (2018: 1,812,096,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2019	2018
	'000	*'000*
Issued ordinary shares at 1 January	**1,810,953**	1,813,509
Effect of shares repurchased	**–**	(1,413)
Weighted average number of ordinary shares at 31 December	**1,810,953**	1,812,096

(b) Diluted loss per share

The Group's convertible bonds, share options granted and warrants issued could potentially dilute basic loss per share in the future, but were not included in the calculation of diluted loss per share because they are antidilutive for year ended 31 December 2019.

The diluted loss per share for year ended 31 December 2018 was calculated based on the loss attributable to equity shareholders of the Company (diluted) of RMB80,820,000 and the weighted average number of ordinary shares (diluted) of 1,867,476,000.

10 TRADE AND OTHER RECEIVABLES

	31 December 2019 *RMB'000*	1 January 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade receivables	**5,876**	23,979	23,979
Less: loss allowance	**(310)**	(3,604)	(3,604)
	5,566	20,375	20,375
Other receivables:			
– Loans to third parties	**58,857**	54,352	54,352
– Receivable for issuance of shares of a subsidiary to a non-controlling equity shareholder *(Note 19)*	**100,000**	–	–
– Others	**9,325**	49,592	49,592
	168,182	103,944	103,944
Less: loss allowance	**(63,551)**	(67,031)	(67,031)
	104,631	36,913	36,913
Financial assets measured at amortised cost	**110,197**	57,288	57,288
Prepayments and deposits *(Note)*	**9,719**	9,242	9,777
	119,916	66,530	67,065

Note: On the date of transition to HKFRS 16, prepayments of operating leases previously included in "prepayments and deposits" were adjusted to right-of-use assets recognised at 1 January 2019. See Note 3.

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

Ageing analysis

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

	At 31 December 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Within 3 months	**5,141**	19,518
Over 3 months but within 6 months	**409**	688
Over 6 months	**16**	169
	5,566	20,375

11 TRADE AND OTHER PAYABLES

	At 31 December 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Trade payables	**10,440**	17,954
Payables for staff related costs	**6,974**	6,258
Payables for miscellaneous taxes	**543**	2,782
Payables for selling expenses incurred for digital point business	**2,259**	8,286
Advance from a non-controlling equity shareholder of a subsidiary	**100,000**	–
Refundable deposit received from a third party in connection with a terminated capital injection into a non-wholly owned subsidiary of the Group *(Note 19)*	**10,000**	–
Others	**18,554**	6,467
	138,330	23,793
Financial liabilities measured at amortised cost	**148,770**	41,747
Deposits received from business partners in connection with the digital point business	**1,439**	1,000
Receipts-in-advance received from customers	**336**	147
Deferred income	**1,254**	584
	151,799	43,478

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

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

	At 31 December 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Within 3 months	**9,937**	17,536
3 to 6 months	**154**	239
Over 6 months	**349**	179
	10,440	17,954

12 CONVERTIBLE BONDS

The Group's convertible bonds are analysed as follows:

	Liability components *RMB'000*	Derivative components *RMB'000*	Total *RMB'000*
At 1 January 2018	59,031	26,044	85,075
Accrued finance charges for the year *(Note 7(a))*	11,385	–	11,385
Interest paid	(7,480)	–	(7,480)
Exchange adjustments	3,127	1,350	4,477
Fair value changes on the derivative components *(Note 7(a))*	–	(26,438)	(26,438)
Redemption, extinguishment and recognition of convertible bonds	(21,700)	(884)	(22,584)
At 31 December 2018 and 1 January 2019	44,363	72	44,435
Accrued finance charges for the year *(Note 7(a))*	6,804	–	6,804
Interest paid	(4,542)	–	(4,542)
Exchange adjustments	359	2	361
Fair value changes on the derivative components *(Note 7(a))*	–	(245)	(245)
Redemption, extinguishment and recognition of convertible bonds	(19,857)	184	(19,673)
At 31 December 2019	27,127	13	27,140

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

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

In July 2018, the Company and Chance Talent entered into an agreement to amend the terms of CB2 which constituted significant contract modifications, and accordingly, CB2 has been accounted for as extinguishment of the original financial instrument and the recognition of new financial instrument. Pursuant to this agreement, the Company redeemed an aggregate principal amount of USD3,300,000 (equivalent to approximately RMB21,994,000) of CB2 in cash and provided an additional 45,347,514 shares in the Company owned by Century Investment as securities for CB2 in 2018. The remaining principal amount of USD6,700,000 was to mature in June 2019 and could be converted into the Company's ordinary shares at HK$1.209 per share before the maturity date in June 2019 ("CB3").

On 3 June 2019, the Company and Chance Talent agreed to further amend the terms of CB3 which constituted significant contract modifications, and accordingly, CB3 has been accounted for as extinguishment of the financial instrument recognised in July 2018 and the recognition of a new financial instrument. Pursuant to the agreement, the Company redeemed a principal amount of USD2,700,000 (equivalent to approximately RMB18,202,000) of CB3 in cash on the same day, and the remaining principal amount of USD4,000,000 is to mature in June 2020 and can be converted into the Company's ordinary shares at HK$1.209 per share from 22 July 2019 to the maturity date in June 2020.

The aggregate difference between the redemption, extinguishment and recognition and the carrying amounts of CB3 took place in 2019 amounted to a gain of RMB1,471,000 (2018: RMB590,000) which has been recognised in profit or loss during the year (see Note 7(a)).

13 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current period and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 *(Note)*	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within 1 year	**1,779**	**2,100**	7,330	8,222
After 1 year but within 2 years	**1,185**	**1,287**	619	798
	2,964	**3,387**	7,949	9,020
Less: total future interest expenses		**(423)**		(1,071)
Present value of lease liabilities		**2,964**		7,949

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information at 31 December 2018 has not been restated. Further details on the impacts of the transition to HKFRS 16 are set out in Note 3.

14 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

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

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

	2019		2018	
	Weighted average exercise price ***HK$***	**Number of share options**	Weighted average exercise price *HK$*	Number of share options
Outstanding at the beginning of the year	**1.31**	**147,000,000**	1.41	75,000,000
Granted during the year		**–**	1.21	72,000,000
Expired during the year	**1.41**	**(75,000,000)**		–
Outstanding at the end of the year	**1.21**	**72,000,000**	1.31	147,000,000
Exercisable at the end of the year	**1.21**	**72,000,000**	1.31	147,000,000

The share options outstanding at 31 December 2019 had a weighted average exercise price of HK$1.21 (2018: HK$1.31) and a weighted average remaining contractual life of 3.3 years (2018: 2.5 years).

15 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets not recognised

In accordance with the accounting policy set out in the annual report, the Group has not recognised deferred tax assets in respect of unused tax losses and temporary differences of RMB617,766,000 at 31 December 2019 (2018: RMB468,756,000), as it is not probable that future taxable profits against which the losses and temporary differences can be utilised will be available in the relevant tax jurisdiction and entity. The unused tax losses at 31 December 2019 will expire on or before 31 December 2024.

16 DIVIDENDS

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

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: RMBNil).

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

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

17 SHARE CAPITAL

Issued share capital

	2019		2018	
	No. of shares *'000*	***USD'000***	No. of shares *'000*	*USD'000*
Authorised:				
Ordinary shares of USD0.01 each	**5,000,000**	**50,000**	5,000,000	50,000

	2019		2018	
	No. of shares *'000*	***RMB'000***	No. of shares *'000*	*RMB'000*
Ordinary shares of USD0.01 each, issued and fully paid:				
At 1 January	**1,810,953**	**117,812**	1,813,509	117,978
Shares repurchased	**–**	**–**	(2,556)	(166)
At 31 December	**1,810,953**	**117,812**	1,810,953	117,812

18 COMMITMENTS

Operating lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Properties	Others
	RMB'000	*RMB'000*
Within 1 year	9,887	364
After 1 year but within 5 years	1,383	74
	11,270	438

The Group is the lessee of certain office premises and miscellaneous office equipment which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 3).

19 CAPITAL INJECTIONS FROM NON-CONTROLLING EQUITY SHAREHOLDERS OF A SUBSIDIARY OF THE GROUP

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

Pursuant to the above subscription agreements, PCL has undertaken to the above investors that if the valuation of PCL in future financing which involves a further subscription of PCL's new ordinary shares is less than USD400,000,000, PCL shall compensate the above investors by issuing additional new ordinary shares to the above investors in accordance with the terms and conditions set out in the related subscription agreements.

As at 31 December 2019, PCL has issued 56,073,128 new shares to two of the above investors. Proceeds from one of the investors, net of transaction costs, of RMB92,851,000 have been received during the year ended 31 December 2019. Proceeds from the other investor has not yet been received while this investor granted an advance of RMB100,000,000 to PCL which is non-interest bearing and will mature upon receipt of the proceeds for shares issued to this investor by PCL.

In December 2019, the subscription agreement between PCL and the remaining investor has been terminated. The deposit previously received from this investor of RMB10,000,000 at 31 December 2019 (see Note 11) has been refunded to the investor in January 2020.

20 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Impacts from the Covid-19 Pandemic

The Covid-19 Pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position.

The Group has been closely monitoring the impact from the Covid-19 Pandemic on the Group's businesses and has commenced to put in place various contingency measures. The directors of the Company confirm that these contingency measures include but not limited to reassessing changes (if any) to the customers' preferences on the types of goods or services and to align the Group's procurement strategies (where necessary), reassessing the adequacy and sustainability of the existing suppliers, expanding the Group's supplier base in a view to procure suitable goods and services to meet customers' preferences on a timely basis, and improving the Group's cash management by expediting debtor settlements and negotiating with suppliers on payment extensions. The Group will keep the contingency measures under review as the Covid-19 Pandemic situation evolves.

As far as the Group's businesses are concerned, the directors of the Company are of the opinion that the Covid-19 Pandemic may impact on the repayment abilities of the Group's debtors, which in turn may result in additional impairment losses on trade and other receivables in future periods. These possible impacts have not been reflected in the financial information as of 31 December 2019, and the actual impacts may differ from these estimates as the Covid-19 Pandemic situation continues to evolve and when further information may become available.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has capitalised on its years of experience in the e-commerce business, which has enabled the Group to grasp market opportunities and enter the digital points business segment and industry. In the second half of 2017, the Group formed the Changyou digital point business ecosystem alliance (the "**Changyou Alliance**") with CCB International (Holdings) Limited ("**CCB International**"), China UnionPay Merchant Services Company Limited ("**UnionPay Merchant**"), China Mobile (Hong Kong) Group Limited ("**China Mobile**"), Bank of China Group Investment Limited ("**Bank of China**") and China Eastern Airlines Corporation Limited ("**China Eastern Airlines**"). With an aim to integrate the digital membership points, resources and strategic advantages of the business partners in the Changyou Alliance, the Group has developed an electronic trading platform, the Changyou platform. The Group strives to develop the Changyou platform as an integrative and secured platform, so as to preserve and maximise the value of digital points as virtual assets for the platform users.

With the development of blockchain technology, digital assets have received increasing attention from the industry. By leveraging advanced technologies such as blockchain and big data, the Changyou Alliance aims to develop a global financial platform for the issuance, circulation, trading, storage and payment settlement of blockchain tokenisation of assets.

Since the launch of the Changyou platform, the platform has undergone rapid development, with an increasing number of users, more diversified products and services, as well as optimised business models and consumption scenarios. The total revenue from the business operations of the Changyou Alliance and the Changyou platform (collectively, the "**Digital Point**" business) increased to approximately RMB204.1 million for the year ended 31 December 2019 (2018: approximately RMB51.0 million) representing an increase of approximately 300.2% as compared to 2018.

The gross merchandise volume of the Digital Point business amounted to approximately RMB330.0 million for the year ended 31 December 2019 (2018: approximately RMB174.0 million), representing an increase of approximately RMB156.0 million (approximately 89.7%) over the same period of last year. The Group is currently negotiating with a number of potential business partners to further enhance the Changyou platform and expand its business scope into other sectors.

The sectors covered by the Changyou platform became further diversified in 2019. Based on the Company's business conditions and future plans, the management changed the business diversification from by sector to by actual business scenarios, with a focus on clear delineation of principal activities as its business model. The Company's business covers four major segments, being its (i) digital points payment system, (ii) financial cooperation business, (iii) business circle segment, and (iv) digital points mall business. Each business segment is operated according to the characteristics of the respective business scenarios in order to improve operational efficiency.

BUSINESS SEGMENTS

(i) Digital points payment system

The Group offers points consumption services and points cashier output services. The Group further optimised offline QR code payment self-operation model business system and front and back office functions to ensure the effectiveness of its income model and the stability and operational efficiency of its business functions. We expanded offline QR code payment cooperation channels to enrich the variety of consumer products. We also expanded the range of key online point payment merchant pilots to improve the Changyou digital point output capacity and to enable more connections to a number of merchants. Certain merchants including Ruixiang Shopping (瑞祥福利購) and Jiangsu One Card (江蘇一卡通) have commenced operations on the platform. The business proposals and product logistics for the digital point exchange and integration with the digital points of Crlife Club (華潤通) and Family Mart (全家) have been determined, and the number of active users have increased. The Group completed the research and development and pilot operation of the digital point payment system under the cooperation with UnionPay Merchant, and assisted UnionPay Merchant in completing the operational marketing training for UnionPay Merchant's subsidiaries across China. The Changyou Pay WeChat applet was launched, which solved the problem that a customer must download an APP to enable QR code payment to UnionPay Merchants, and the Changyou Pay authentic name verification process was optimised.

(ii) Financial cooperation business

With the improvement of China's financial market and the rapid development of information technology, the "pan-financial" era has gradually moved on track with numerous emerging internet financial models. Users can monetise Changyou points via Changyou Pay (暢由付) on the Changyou platform. Changyou Pay also enhances the standardised, low-cost and efficient Changyou points services for small and medium enterprises.

The Group optimised direct accessibility to its consumer financial products and explored user profiles, and increased the connections on the Changyou platform to a total of 35 institutions including banks and consumer financial institutions. The Group further enriched brand resources by introducing brands including Huawei, Xiaomi, and Vivo, and also strengthened the development of its B2B and B2B2C installment payments business, and a diversified business model incorporating direct sales, enterprise sourcing and third-party introductions was formed.

Asset management business

The Group selected suitable financial products and services ranging from insurance, funds and wealth management to smart investment advisory services. Promotion of credit cards and insurance products was strengthened to ensure complete product coverage. Upon filing with the China Insurance Regulatory Commission, the Group adopted an innovative model of Insurance Purchase with Points (全積分購保險), which is the first in the industry. The Group entered into agreements with several renowned licensed financial institutions in respect of its cooperation on business promotions, including 12 partnering banks for credit card cooperation and four institutions for promotion.

Big data marketing business

The Group conducted targeted big data marketing through pilot cooperation with Bank of China, and provided customers with consumer credit tools such as payment by instalment.

(iii) Business circle segment

With continuous growth of consumer demand and accelerated upgrading of consumer spending structure, China's economy is entering a new stage of consumption-driven development. To cater for the current consumption trends and improving quality of life, Changyou's digital points mall has introduced various differentiated and high-quality products to the Changyou platform via a cooperation model of "introducing and connecting new merchants" (招商入駐+對接) with popular social e-commerce platforms in China within the platform's vertical business model, such as JD, NetEase Yeation, NetEase Kaola, Pinduoduo, Xiaoxiangyoupin and Xiaohongshu. In the digital points mall, users can make purchases with digital points as if they were real money. Changyou will then make online rebate settlements with such cooperation platforms after calculation of the customers' consumption of the products and services, which will improve the profits of both the Group and such cooperation platforms.

The business circle segment serves as the basic function of the Changyou platform with a focus on increasing the variety of goods, offering more necessities and improving the value of goods and services available on the platform. In 2019, the Group recorded satisfactory results in its self-operated digital points mall business, cooperation with third parties and expansion of marketing tools.

(iv) Self-operated digital points mall business

Electronic coupons: 200 contracted card brands, involving shopping malls, supermarkets, department stores, food and beverage, video entertainment, online consumption and travelling service industries, reputable brands of which include: Family Mart, Wal-Mart, Carrefour, Starbucks, KFC, Suning.com, Tmall, JD, Tencent Video, Ximalaya, Iqiyi, Maoyan Movie, Didi, Haagen-Dazs, Sinopec, PetroChina and Godiva.

Physical goods: As at the end of December 2019, the stock keeping unit of the digital points mall reached 12,000, covering ten categories including kitchen supplies, maternal and infant supplies and toys, food and liquor, digital products, textiles, home appliances, gifts and bags, cosmetics and personal skin care products, automotive supplies, outdoor and sports goods of 752 brands. A flash sale section was held to attract users with discounted goods packages, which recorded growing sales since its launch in March 2019. Cost per sales cooperation platforms including Pinduoduo, JD, Taobao Alliance and Aikucun were also introduced to leverage existing channel resources for traffic conversion and user reception, with goods covering clothings, shoes and hats, fruit, fresh products and household products.

Building on the foundation of the digital points mall's B2C sales, vertical sales of telephone call credits, BesTV membership cards and other benefits to merchants, the Group successfully made profit in the year in which it commenced operation. The Group completed the introduction of 25 downstream customers and six upstream suppliers, which ensured the provision of stable and high-quality mobile topping-up services at competitive prices and established a solid foothold in the industry. The basic framework of Changyou's B2B direct sales platform was established. With the mobile topping-up business, the initial phase of system building and optimisation was completed, and basic service rules and process have been established.

FINANCIAL REVIEW

Revenue

The Group recorded a consolidated revenue of approximately RMB204.1 million (2018: approximately RMB51.0 million), representing an increase of approximately 300.2% as compared to 2018.

The increase in total revenue of the Group was mainly due to the continuing development and significant expansion of the Digital Point business for the year ended 31 December 2019.

Gross profit/(loss)

Gross profit for the year ended 31 December 2019 amounted to approximately RMB0.8 million, as compared with the gross loss of approximately RMB8.1 million for the year ended 31 December 2018. The turnaround position from gross loss to gross profit was mainly due to the reduction of promotional campaigns that use most favourable product price to attract users to maintain loyalty to Changyou platform, the increase in diversified products and services and the introduction of more clear delineation of business segments to improve operational efficiency.

Other income

Other income of the Group for the year ended 31 December 2019 was approximately RMB4.2 million (2018: approximately RMB2.9 million). A detailed breakdown of the factors contributing to the other income of the Group is disclosed in note 5 of the financial statements as disclosed in this announcement.

Impairment losses

Impairment losses of the Group for the year ended 31 December 2019 was approximately RMB36.8 million which mainly represents the impairment loss on a loan to a third party (2018: approximately RMB26.5 million).

Selling and distribution expenses

Selling and distribution expenses of the Group for the year ended 31 December 2019 decreased to approximately RMB37.3 million (2018: approximately RMB113.1 million). The decrease was mainly attributable to reduced sales and promotion activities for Changyou platform during the year ended 31 December 2019.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2019 decreased to approximately RMB75.7 million (2018: approximately RMB85.8 million). The decrease was mainly attributable to the cessation of the operation of the e-commerce business in 2018 and no accruals of equity-settled share-base payment expenses during the year ended 31 December 2019.

Research and development costs

Research and development costs of the Group for the year ended 31 December 2019 decreased to approximately RMB44.2 million (2018: approximately RMB49.3 million). The research and development costs were relatively stable in 2019.

Finance income/costs

The Group incurred finance costs of approximately RMB5.7 million for the year ended 31 December 2019, while the Group incurred finance income of approximately RMB17.1 million for the year ended 31 December 2018. A detailed breakdown of the factors contributing to the finance income/costs of the Group is disclosed in note 7(a) of the financial statements as disclosed in this announcement.

Taxation

No income tax expenses was recorded for the year ended 31 December 2019 and 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, cash and cash equivalents of the Group were approximately RMB137.8 million (as at 31 December 2018: approximately RMB97.4 million). As compared to 2018, cash and cash equivalents increased by approximately RMB40.4 million, mainly due to net cash outflow arising from operating activities of approximately RMB134.2 million (2018: approximately RMB245.8 million), net cash inflow arising from investing activities of approximately RMB0.3 million (2018: net cash outflow of approximately RMB25.7 million) and net cash inflow from financing activities of approximately RMB171.9 million (2018: net cash outflow of approximately RMB30.1 million).

Convertible Bonds

On 7 December 2017, the Company and Chance Talent Management Limited ("**Chance Talent**"), an indirect wholly-owned special purpose vehicle of CCB International (Holdings) Limited, entered into a subscription agreement, pursuant to which the Company shall issue US$10 million 13% secured convertible bonds (the "**Convertible Bonds**") to Chance Talent. The Convertible Bonds bear interest at 13% per annum with a maturity date on 3 June 2019. For further details of the transaction, please refer to the announcement of the Company dated 7 December 2017.

The issuance of Convertible Bonds was completed on 20 December 2017. The US$10 million payable by Chance Talent for the subscription of the Convertible Bonds was satisfied by way of off-setting the aggregate outstanding principal amount of US$10 million payable by the Company under the previous convertible bonds issued by the Company to Chance Talent in June 2015. Accordingly, no proceeds arose from the issue of the Convertible Bonds.

On 10 July 2019, the Company entered into a framework deed of amendment (the "**Amendment Deed**") with Chance Talent and Century Investment (Holding) Limited ("**CIH**"), and executed an amendment deed poll pursuant to the Amendment Deed, to amend, among other things, the maturity date of the Convertible Bonds from 3 June 2019 to 3 June 2020. For further details of the extension of the maturity date of the Convertible Bonds, please refer to the announcement of the Company dated 10 July 2019.

Since the issuance of the Convertible Bonds on 20 December 2017 and up to 31 December 2019, the Company partially redeemed the Convertible Bonds in the aggregate principal amount of US$6 million. The total outstanding principal amount of the Convertible Bonds as at 31 December 2019 was US$4 million.

Placing

On 12 December 2016, the Company entered into a placing agreement with a placing agent, pursuant to which the Company agreed to place, through the placing agent, a maximum of 291,218,000 shares of the Company to independent placees at a price of HK$1.98 per share (the "**Placing**"). For further details of the transaction, please refer to the announcements of the Company dated 16 December 2016, 22 December 2016, 6 January 2017, 3 October 2017 and 22 August 2018, respectively. As at 31 December 2019, the actual use of the proceeds from the Placing, which was completed on 6 January 2017, was as follows:

Usage	Original use of the proceeds from the Placing *(approximate)* *RMB (million)*	Revised use of the proceeds from the Placing (as previously disclosed in the annual report of the Company for the year ended 31 December 2017) *(approximate)* *RMB (million)*	Actual use of the proceeds from the Placing since 6 January 2017, being the date of completion of the Placing *(approximate)* *RMB (million)*
To fund the general working capital of the Group other than the Digital Point business for the year ended 31 December 2017	53	53	53
To fund the Company's subscription of 50.1% in the issued share capital of Treasure Ease Holdings Limited	40	40	40
To fund the working capital requirement for operating the Digital Point business for the year ended 31 December 2017, which includes (a) capital expenditure (such as acquisition of information system hardware, software, establishment of technological platform and construction of engine rooms); and (b) operating expense requirement (such as marketing expenses, human resources expenses and office rent)	31	76	76
To fund (a) the capital expenditure; and (b) the operating expense for developing and operating the Digital Point business for the two years ended 31 December 2019 *(Note)*	377	229	229
For interest-bearing instrument to allow flexibility in the Company's financial and treasury management	–	47	47
To fund the repurchase of shares of the Company	–	9	9
For the repayment of secured loan	–	47	47
Total	501	501	501

Note:

The detailed breakdown for (a) the capital expenditure; and (b) the operating expense for developing and operating the Digital Point business for the year ended 31 December 2019 are as follows:

Usage	**Revised use of the proceeds from the Placing (as previously disclosed in the interim report of the Company for the six months ended 30 June 2019)** *(approximate)* *RMB (million)*	**Actual use of the proceeds from the Placing since 6 January 2017, being the date of Completion of the Placing** *(approximate)* *RMB (million)*
To fund the fixed expenses (comprising salaries and other administrative expenses) for the recruitment and retention of personnel and management and for the development of the "Changyou" platform for the year ended 31 December 2018	120	120
To fund promotional and marketing activities to attract and maintain customers' loyalty and their participation and consumption of the products and services provided on the "Changyou" platform for the year ended 31 December 2019	105	105
To fund the capital expenditure of the Digital Point business for the year ended 31 December 2019	4	4
Total	229	229

Issue of Warrants

On 26 March 2018, the Company and Century Investment (Holding) Limited ("**CIH**"), the substantial shareholder of the Company, entered into a warrant subscription agreement, pursuant to which the Company shall issue 298,000,000 warrants ("**Warrants**") to CIH at a subscription price of HK$0.01 per Warrant. The Company received the subscription price of HK$2,980,000. For further details of the transaction, please refer to the announcements of the Company dated 26 March 2018 and 27 June 2018, respectively, and the circular of the Company dated 5 July 2018. The Warrants were issued on 18 September 2018. The net proceeds from the issue of Warrants (after deduction of relevant expenses) of approximately HK$1,480,000 was fully utilised for the development of the Changyou platform during the year ended 31 December 2018.

None of the Warrants were exercised during the year ended 31 December 2019. However, the Company is of the view that CIH has demonstrated continuous support and motivation to improve the Company's financial performance, and it is the mutual understanding between the Company and CIH that CIH will exercise the subscription rights of the Warrants when the Company is in need of financial resources to cope with the development and expansion of the Digital Point business in the future.

Share options

On 7 August 2018, the Company granted 72,000,000 share options to Cheng Jerome, the chairman and an executive director of the Company. For further details of the transaction, please refer to the announcement of the Company dated 4 May 2018 and the circular of the Company dated 15 June 2018. No option was exercised during the year ended 31 December 2019.

Advance to an entity

On 3 January 2019, Fortunet Development Limited (the "**Lender**"), an indirect wholly-owned subsidiary of the Company, entered into a loan agreement (the "**Loan Agreement**") with Asia Television Holdings Limited (the "**Borrower**"), pursuant to which the Lender conditionally agreed to provide to the Borrower a term loan of HK$40,000,000 for the general working capital of the Borrower, at an interest rate of 12% per annum for a term of 12 months commencing from the date of the drawdown of the loan by the Borrower (the "**Loan**"). The obligations of the Borrower under the Loan Agreement are secured by a deed of guarantee by a substantial shareholder of the Borrower (the "**Guarantor**"). For further details of the Loan, please refer to the announcement of the Company dated 3 January 2019. The Borrower has fully drawn down the Loan in one single amount on 3 January 2019. Pursuant to the Loan Agreement, the Borrower shall repay the principal amount of the Loan in full together with the interest accrued thereon on 3 January 2020. As at the date of this announcement, the Loan is still outstanding and the Lender is in negotiations with the Borrower and the Guarantor for the repayment of the Loan.

Deemed disposal of equity interest in a subsidiary

On 31 January 2019, Pointsea Company Limited ("**PCL**"), an indirect non-wholly owned subsidiary of the Company, entered into subscription agreements with certain investors (collectively, the "**Investors**") in relation to the allotment and issue of shares in PCL (the "**Subscriptions**"). The aggregate amount of proceeds expected to be raised upon the completion of all the Subscriptions amounts to RMB300 million, which is intended to be utilised for, among other things, the further development and expansion of the Digital Point business of the Group. The subscription price payable for the Subscriptions was determined after arm's length negotiations between PCL and the Investors on the basis of the pre-money valuation of US$500 million (approximately RMB3,424 million). The Subscriptions by two out of three Investors were completed in March 2019, and gross proceeds of RMB200 million were received by the Group. The Subscription by the remaining one Investor was terminated on 1 December 2019 as the conditions precedent set out in the relevant subscription agreement have not been fully satisfied or waived. Further details in relation to the Subscriptions have been set out in the Company's announcements dated 31 January 2019, 14 February 2019, 31 May 2019 and 1 December 2019. As at 31 December 2019, the actual use of proceeds from the Subscriptions was as follows:

Usage	Original use of the proceeds from the Subscriptions as previously disclosed in the annual report of the Company for the year ended 31 December 2018 *RMB (million)*	Revised use of the proceeds from the Subscriptions due to the termination of the Subscription by one of the Investors *RMB (million)*	Actual use of the proceeds from the Subscriptions *RMB (million)*
To fund the fixed expenses (comprising salaries and other administrative expenses) for the recruitment and retention of personnel and management and for the development of Changyou platform in 2019 and 2020	120	93	93
To fund promotional and marketing activities to attract and maintain customers' loyalty and their participation and consumption of the products and services provided on the Changyou platform in 2019 and 2020	80	10	7
For the repayment of the unsecured term loan facility advanced from the Company by August 2019	88	88	88
To fund the registered capital of any direct or indirect wholly foreign owned enterprise of PCL in 2019 and 2020	3	–	–
To fund the general working capital of PCL and its subsidiaries in 2019 and 2020	9	9	9
Total	300	200	197

The total balance of unutilised proceeds from the Subscriptions was approximately RMB3 million as at 31 December 2019 (the "**Unutilised Proceeds**"). The Group intends that the Unutilised Proceeds will be used for the purpose as set out above for the year ending 31 December 2020.

Net assets

As at 31 December 2019, net current assets of the Group amounted to approximately RMB81.4 million (as at 31 December 2018: approximately RMB80.1 million). As at 31 December 2019, the current ratio (being total current assets divided by total current liabilities) of the Group was approximately 1.45 (as at 31 December 2018: approximately 1.91).

As at 31 December 2019, total assets of the Group were approximately RMB271.1 million (as at 31 December 2018: approximately RMB177.4 million) and total liabilities were approximately RMB181.9 million (31 December 2018: approximately RMB87.9 million). The debt ratio as at 31 December 2019 (being total liabilities divided by total assets) was 0.67 as compared to 0.50 as at 31 December 2018.

Borrowings

As at 31 December 2019, the Group had total borrowings (which consisted of convertible bonds) of approximately RMB27.1 million (as at 31 December 2018: approximately RMB44.4 million). The gearing ratio as at 31 December 2019 (being total borrowing divided by total equity) was approximately 0.30 (as at 31 December 2018: approximately 0.50).

Trade and other receivables

Trade and other receivables of the Group as at 31 December 2019 were approximately RMB119.9 million (as at 31 December 2018: approximately RMB67.1 million). A detailed breakdown of the factors contributing to the trade and other receivables of the Group is disclosed in note 10 of the financial statements as disclosed in this announcement.

Inventories

The inventory balance of the Group as at 31 December 2019 was approximately RMB1.7 million (as at 31 December 2018: approximately RMB0.5 million). Although the Digital Point business requires minimal inventory level, the increase in inventory level was mainly due to the expansion of Digital Point business.

Trade and other payables

Trade and other payables of the Group as at 31 December 2019 were approximately RMB151.8 million (as at 31 December 2018: approximately RMB43.5 million). A detailed breakdown of the factors contributing to the trade and other payables of the Group is disclosed in note 11 of the financial statements as disclosed in this announcement.

Pledged assets

As at 31 December 2019, the Group did not have pledged assets (as at 31 December 2018: Nil).

Contingent liabilities

As at 31 December 2019, the Group had no significant contingent liabilities (as at 31 December 2018: Nil).

Capital commitment

As at 31 December 2019, the Group had no contracted capital commitments which were not provided in the financial statements (as at 31 December 2018: Nil).

Employees and remuneration policy

As at 31 December 2019, the Group had 238 employees (as at 31 December 2018: 303 employees). For the year ended 31 December 2019, total staff costs were approximately RMB101.8 million (2018: approximately RMB133.5 million).

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

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

Save for the deemed disposal of equity interest in PCL by the Company as disclosed in this announcement, there were no significant investments held nor material acquisitions or disposals of subsidiaries during the year ended 31 December 2019 and there was no plan authorised by the Board for other material investments or additions of capital assets as at the date of this announcement.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

As at the date of this announcement, CIH pledged its 154,691,176 ordinary shares in the Company (the "**Charged Shares**") in favour of Chance Talent to secure the obligations of the Company under the Convertible Bonds. The Charged Shares represent approximately 8.54% of the issued share capital of the Company as at the date of this announcement.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

PROSPECTS

In 2020, the Group will vigorously develop its Changyou Alliance user base and acquire customers through targeted sales based on its own channels and payment scenarios. It will focus on the value of digital points by using games, payment and instalment products to significantly stimulate the activity of the Changyou platform. It will leverage big data and artificial intelligence to support the merchants introduced into the Changyou platform with the S2B2C model and eventually realise the growth of user size and platform income.

The Group's digital asset platform is available for the issuance, circulation, payment and settlement of global assets able to be tokenised and serves as the entry point for point realisation. Under the intelligent business environment, the Group will make full use of Changyou's channels and customer resources to capture the needs of users and attain new network collaboration. In 2020, the Group will focus on the operation of the main platform network, supported by two wings. The operation centre will be responsible for games, digital points mall and marketing of equity products; the financial division will be mainly responsible for payment and instalment business; and the retail division will be mainly responsible for the open platform for B2B services and internet accelerator business.

Points payment system and financial corporation business

The Group will vigorously develop business with business with offline QR code point payment merchants, high-quality online cooperation platform merchants and equity asset trading merchants, and further optimise offline QR code payment merchant channel resources and trading scenarios. The Group will strengthen cooperation with high-quality online platforms and expand the range of exchange for online equity products. The Group will also recommend more reliable and intelligent financial products and convenient consumer financial services and continue to provide companies with reliable, safe and diversified payment products and channels.

Business circle segment

The business circle segment will strive to expand the cooperation with brand owners, quickly beef up mall product offering, strengthen the unique characteristics of the product categories and channels of the mall, increase consumer loyalty through the points + sales pattern enhancement model, and continue to enrich the digital point and cash consumption scenarios, so as to increase the income of all consumption scenarios of the business circle division in 2020.

Digital points mall business

Retail

The Group is committed to providing users with high-quality products and will further enrich its product types through brand tours and outlets. In 2020, the Group will continue to expand customer base and strengthen the position of Changyou digital points in the industry while continuing to generate income.

Entertainment

The Group will put light interactive games into special channels for shareholders, self-owned channels and related merchant channels, which will be embedded with Changyou platform product attributes in order to quickly and efficiently build up its customer base. The Group will provide added benefits to frequent purchases with low-unit price customers to retain users of the entertainment division and stimulate users consumption. The Group will further introduce diversified video, music and game coupons, and give favour to users holding leftover points to create an impression of discounts and encourage users to exchange their digital points and guide them to target scenarios, while conducting in-depth cooperation with target scenarios to obtain substantial benefits including discounted purchase price and rebates through efficient digital points referral, so as to increase the total income of the three major consumption scenarios, being games, videos and music coupons, of the entertainment business. The acquisition of customers through applet/mini games is also an important goal of the entertainment division.

The Changyou platform was officially launched in September 2017. With less than three years' development, it has received strong recognition from users and the market. The Group will continue to strive to build a digital-points ecosystem with the largest global presence, create a future-oriented business and financial platform and lead the business society to an age of intelligent interconnection.

CORPORATE GOVERNANCE PRACTICES

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

During the year ended 31 December 2019, the Company had complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"), save for the deviation as set forth below:

Code Provision A.6.7

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and non-executive directors should generally attend general meetings of the Company. Mrs. Guo Yan and Mr. Liu Jialin were not able to attend the annual general meeting of the Company held on 28 May 2019 due to their other engagement in other commitments. Mrs. Guo Yan and Mr. Liu Jialin were not able to attend the extraordinary general meeting of the Company held on 31 October 2019 due to their other engagement in other commitments.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Wednesday, 3 June 2020. A notice convening the annual general meeting will be published and despatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 29 May 2020 to Wednesday, 3 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to determine who are entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Wednesday, 3 June 2020, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 28 May 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the shares of the Company during the year ended 31 December 2019.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Specific enquiries have been made with all Directors, and each Director has declared and confirmed that, during the year ended 31 December 2019, they were in compliance with the Model Code.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group, the selection and appointment of the external auditors and the effectiveness of the systems of risk management and internal control of the Group.

PUBLICATION OF RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fortunetecomm.com. The annual report of the Company for the year ended 31 December 2019 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and published on the above websites in due course.

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

Hong Kong, 31 March 2020

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