

2017 Annual Report

Forgame Holdings Limited (Incorporated in the Cayman Islands with limited liability)
雲遊控股有限公司 Stock Code: 00484





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Dongfeng

(Chairman and Chief Executive Officer)

Ms. LIANG Na *(Chief Financial Officer)*

Mr. ZHANG Yang *(Chief Operations Officer)*

Non-executive Director

Mr. ZHANG Qiang

Independent Non-executive Directors

Mr. HOW Sze Ming

Ms. POON Philana Wai Yin

Mr. ZHAO Cong Richard

AUDIT AND COMPLIANCE COMMITTEE

Mr. HOW Sze Ming *(Chairman)*

Mr. ZHANG Qiang

Ms. POON Philana Wai Yin

REMUNERATION COMMITTEE

Mr. ZHAO Cong Richard *(Chairman)*

Mr. ZHANG Qiang

Mr. HOW Sze Ming

NOMINATION COMMITTEE

Mr. WANG Dongfeng *(Chairman)*

Ms. POON Philana Wai Yin

Mr. ZHAO Cong Richard

AUTHORISED REPRESENTATIVES

Mr. WANG Dongfeng

Ms. LU Feinan

COMPANY SECRETARY

Ms. LU Feinan

LEGAL ADVISORS

As to Hong Kong law:

(in alphabetical order)

Davis Polk & Wardwell

18/F, The Hong Kong Club Building

3A Chater Road

Central

Hong Kong

Sidley Austin

39/F, Two International Finance Centre

8 Finance Street

Central

Hong Kong

Woo, Kwan, Lee & Lo

26/F, Jardine House

1 Connaught Place

Central

Hong Kong

As to Cayman Islands law:

(in alphabetical order)

Appleby

2206-19, Jardine House

1 Connaught Place

Central

Hong Kong

Walkers

Suite 1501-1507, Alexandra House

18 Chater Road

Central

Hong Kong

As to PRC law:

Jingtian & Gongcheng

34/F, Tower 3, China Central Place

77 Jianguo Road, Chaoyang District

Beijing

PRC

CORPORATE INFORMATION

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

REGISTERED OFFICE

The offices of Osiris International Cayman Limited
Suite #4-210, Governors Square
23 Lime Tree Bay Avenue
P.O. Box 32311
Grand Cayman KY1-1209
Cayman Islands

CORPORATE HEADQUARTERS

37/F, West Hall Renfeng Building
490 Tianhe Road
Guangzhou
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16/F, Man Yee Building
60-68 Des Voeux Road Central
Central
Hong Kong

CAYMAN ISLANDS PRINCIPAL REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

**Computershare Hong Kong Investor Services
Limited**
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

(in alphabetical order)

China Citic Bank, Jiujiang branch
China Merchants Bank, Hong Kong branch
China Merchants Banks, Guangzhou branch
Shanghai Pudong Development Bank, Hong Kong branch

INVESTOR RELATIONS

Christensen
16/F, Methodist House
36 Hennessy Road
Wan Chai
Hong Kong

COMPANY'S WEBSITE

www.forgame.com

STOCK CODE ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

00484

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

	Year Ended 31 December				
	2017 RMB' 000	2016 RMB' 000	2015 RMB' 000	2014 RMB' 000	2013 RMB' 000
Revenue	346,466	361,564	511,539	643,470	1,183,128
Gross profit	222,281	72,549	171,414	425,191	1,001,911
Profit/(loss) for the year	68,648	(396,492)	(129,621)	(38,807)	(475,404)
Non-IFRSs Measures					
– EBITDA ⁽¹⁾ for the year	105,319	(364,158)	(115,487)	(24,061)	(391,740)
– Adjusted EBITDA ⁽²⁾ for the year	58,561	(207,813)	(38,675)	(6,004)	408,866

Notes:

- (1) EBITDA means earnings before interests, taxes, depreciation and amortisation.
- (2) The Group defines adjusted EBITDA as EBITDA excluding share-based compensation, changes in the value of financial assets at fair value through profit or loss, loss on disposal of a subsidiary, gain on disposal of investment in an associate, gain on disposal of available-for-sale financial assets, impairment of investment in associates, and impairment of available-for-sale financial assets. For details of EBITDA and adjusted EBITDA, please refer to the section headed "Management Discussion and Analysis – Non-IFRSs Measures – EBITDA and Adjusted EBITDA" in this annual report.

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2017 RMB' 000	2016 RMB' 000	2015 RMB' 000	2014 RMB' 000	2013 RMB' 000
Assets					
Non-current assets	416,930	393,435	281,706	352,460	170,376
Current assets	1,106,452	768,382	1,243,405	1,206,760	1,421,100
Total assets	1,523,382	1,161,817	1,525,111	1,559,220	1,591,476
Equity and liabilities					
Total equity	1,181,417	1,058,110	1,444,726	1,401,046	1,388,082
Non-current liabilities	32,447	474	2,202	7,553	8,465
Current liabilities	309,518	103,233	78,183	150,621	194,929
Total liabilities	341,965	103,707	80,385	158,174	203,394
Total equity and liabilities	1,523,382	1,161,817	1,525,111	1,559,220	1,591,476

CHAIRMAN'S STATEMENT

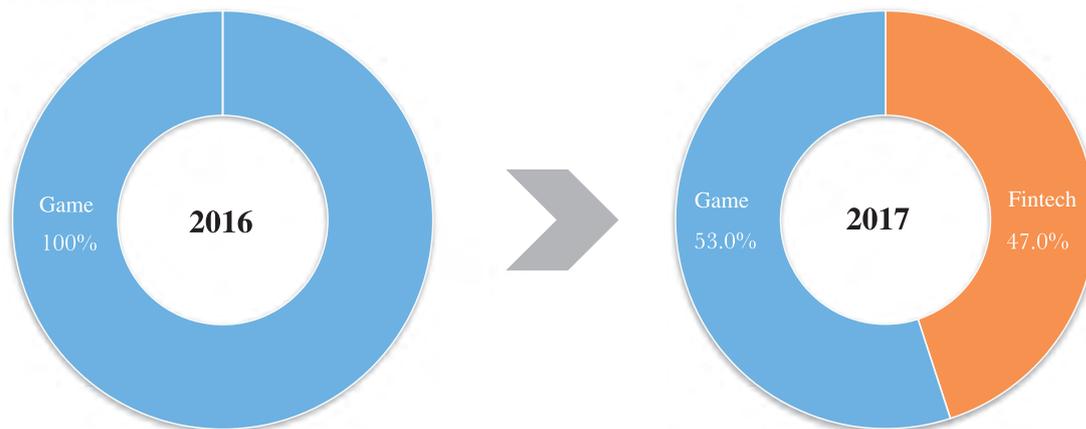
Dear Forgame Shareholders,

On behalf of the Board, I am pleased to present our financial performance for the year ended 31 December 2017.

Overview

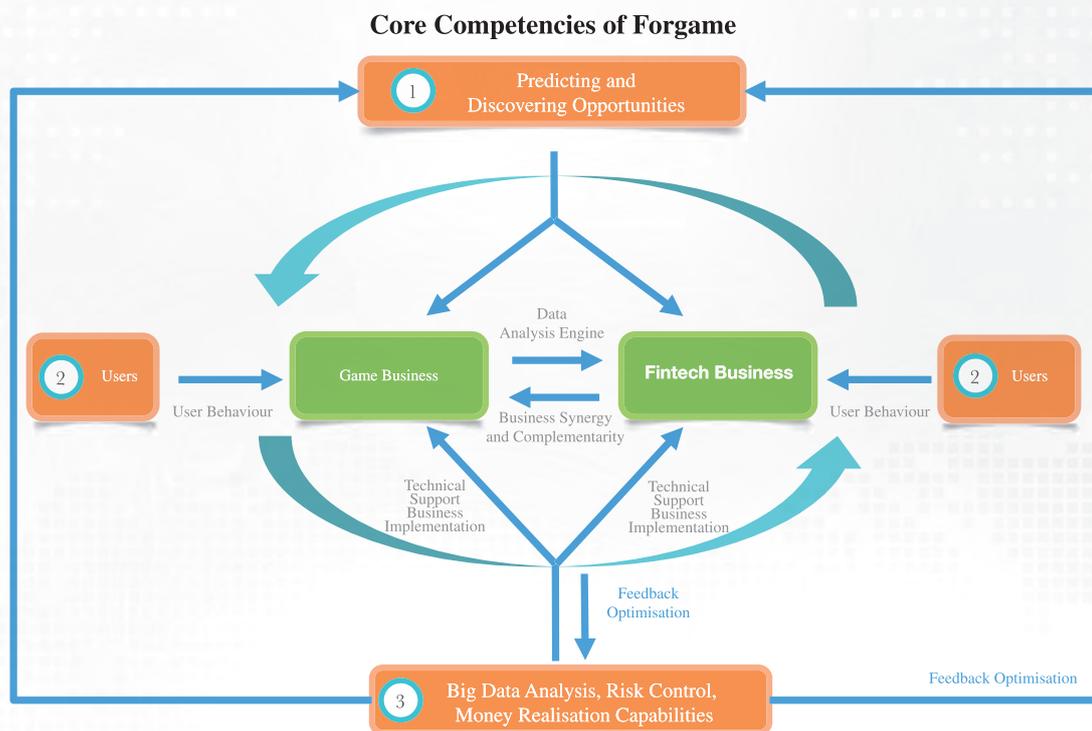
We are pleased to announce that Forgame regained profitability in 2017, and **generated EBITDA of RMB105.3 million, net profit of RMB68.6 million and basic earnings per share of RMB0.54**. The Group efficiently executed the strategic goals it set in 2016 by successfully developing and expanding its fintech business, and further optimising the allocation of its game development resources. Forgame's fintech business grew rapidly, and hit its strategic goal by contributing 47.0% of total revenue during the year. On behalf of Forgame's management team and employees, I would like to thank our Shareholders for their continued support throughout the past challenging years.

Revenue Composition of Forgame



Since Forgame's establishment, we have been particularly adept at understanding the preferences of China's internet users, including successfully predicting the growing popularity of web and mobile games as well as the advent of fintech years after. Forgame has never been absent from growing trends on the internet. Following a few years in which we were developing our capabilities, we have once again leveraged our **core competencies in big data analytics** and successfully applied them to the game and fintech markets over the past years.

CHAIRMAN'S STATEMENT



Throughout its development history, Forgame has demonstrated its solid capabilities in (i) predicting emerging opportunities, (ii) rapidly building systematic infrastructure to take advantage of the opportunities and attract large user bases, and (iii) analysing big data and user behaviour and rapidly applying our deep business experience towards optimising and adjusting our development strategies in support of our long-term and sustainable business development.

As we continue to build our business out to scale, we will obtain more high-quality user data, refine and optimise our big data analysis capabilities, and form a closed-loop virtuous cycle. Our strong big data analysis capabilities directly support our ability to predict and discover emerging opportunities. This forms an ecosystem with self-growing circulation.

Game Business

With respect to the established game business, the production team behind “Liberators”, the Group’s first overseas blockbuster, analysed the large amount of data collected from overseas players to optimise promotion strategy, improve player retention, and design more appealing game features. In 2017, “Liberators” generated annual revenue of RMB78.7 million, and had a total of 6,477,876 (as of 31 December 2017) registered players. The production team expects to introduce new games to European and US markets in 2018. The management expects these new games will replicate the success we had with “Liberators” and strengthen Forgame’s presence in the overseas markets.

CHAIRMAN'S STATEMENT

Fintech Business

As we laid out in our 2017 interim report, operations for our internet micro-credit platform began in January 2017 after obtaining an internet micro-credit business licence in December 2016. With a full year of fintech operational experience behind us, we have accumulated a large amount of user data and leveraged our big data analysis capabilities to build solid risk control systems of internet micro-credit. We facilitated 4,589,476 loans in 2017 to 1,428,941 borrowers. As the regulatory environment for fintech in China tightens, we are confident that our internet micro-credit business, which is compliant, licensed, and equipped with big user data and technological capabilities, will see a healthier and more sustainable growth.

After Forgame acquired a 55% equity interest in the premium online wealth management business Jianlicai from Yinker on 16 August 2017, we leveraged our deep experience in the game sector and big data analysis to comprehensively enhance its operations. As part of this effort, we developed four artificial intelligence systems which included a business intelligence system (“Tianji (天璣)”), a big data risk control system (“Kaiyang (開陽)”), an intelligent asset matching system (“Tianshu (天樞)”) and a payment routing system (“Yuheng (玉衡)”). Out of these four systems, the intelligent asset matching technology and the interest calculation method are undergoing patents application. With the incorporation of these four systems, Jianlicai has attracted the market's attention and has been recognised with many awards such as the “2017 most influential wealth management brand” by professional financial media. As of 27 March 2018, Jianlicai had more than 8.8 million registered users and cumulative transaction volume of RMB 96.7 billion since its inception.

Outlook

Throughout the history of business, all truly great enterprises are ones that remain committed to the creation of social value. **The greatest commercial value comes from the realisation of social value.** Forgame aspires to become a great enterprise that brings the enjoyment of games and the convenience of inclusive finance to the general public. Let happiness be at your fingertips, let financial inclusion be everywhere (讓快樂觸手可及, 讓金融隨手可得). This is Forgame's commitment to the society along with its mission to promote cutting-edge technologies.

We carefully reviewed our significant improvements on our operational and financial performances in 2017. As we head into 2018, we will continue to optimise the allocation of our game development resources, and increase investment into our fintech business, especially with regards to developing core technological capabilities such as big data and artificial intelligence. We believe that the improvement of our performances in 2017 was not accidental but was an inevitable result of the continuous development of our own capabilities over the past few years. At the same time, we must also remind investors that our fintech business is in an emerging industry in China with many uncertainties. More information on this is highlighted in the “Management Discussion and Analysis – Diversification Plan: Risks and Hurdles” of this annual report. Forgame expects to maintain its solid growth momentum into 2018 as it creates sustainable long-term value for its Shareholders.

CHAIRMAN'S STATEMENT

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.

WANG Dongfeng

Chairman

Hong Kong, 27 March 2018

REPORT OF DIRECTORS

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Group is principally engaged in developing and publishing domestic and overseas webgames and mobile games and providing online wealth management service and internet micro-credit service in the PRC.

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 11a to the Financial Statements.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of comprehensive income/(loss) from pages 91 to 92 of this annual report.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the sections headed “Financial Highlights”, “Chairman’s Statement” and “Management Discussion and Analysis” from page 4, pages 5 to 8 and pages 47 to 61 of this annual report, respectively.

Description of principal risks and uncertainties that the Group may be facing can be found in the sections headed “Report of Directors – Contractual Arrangements – F. Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks” and “Management Discussion and Analysis – Diversification Plan: Risks and Hurdles” from pages 27 to 32 and pages 60 to 61 of this annual report, respectively. An analysis of the Group’s performance during the year using financial key performance indicators is set out in the section headed “Management Discussion and Analysis” from pages 47 to 61 of this annual report. In addition, the Group’s environmental, social and corporate government report (the “Environmental, Social and Governance Report”) can be found in the appendix to this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

SHARE CAPITAL

During the year ended 31 December 2017, the Company had issued 630,734 Shares as a result of the exercise of the options granted under the Pre-IPO Share Options Scheme and the Post-IPO Share Options Scheme.

Details of the movement in the share capital of the Company during the year ended 31 December 2017 are set out in note 23 to the Financial Statements.

REPORT OF DIRECTORS

RESERVES

Details of the movements in reserves of the Group during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity on page 96 of this annual report and in note 24 to the Financial Statements.

USE OF PROCEEDS FROM IPO

The Company's Shares were listed on the Stock Exchange in October 2013 and the Company raised net proceeds of approximately HK\$982.8 million from the IPO. It was disclosed in the Company's announcement dated 3 August 2016 (the "August Announcement") that the Board had resolved to change the use of approximately HK\$289,840,000 out of the remaining unutilised IPO proceeds as at the date of the August Announcement for investments in the internet, media and technology industry, and such investments may include equity, bonds, hybrid products such as convertible bonds in the primary or secondary market. The balance of the IPO proceeds of approximately HK\$115,200,000 as at the date of the August Announcement would be used for working capital and other general corporate purposes. For further details, please refer to the August Announcement.

As at 31 December 2017, the Group had utilised all of the net proceeds from the IPO, of which (i) approximately HK\$386.3 million was used in the purchase of webgame and mobile game licences, the acquisition of IP rights authorisation and equity investments, (ii) approximately HK\$92.5 million was used in funding the expansion of the Group's international operation, (iii) approximately HK\$289.8 million was used in investments in the internet, media and technology industry, and (iv) approximately HK\$214.2 million was used for working capital and other general corporate purposes. Such utilisation of the net proceeds was in accordance with the proposed allocations set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 19 September 2013 in relation to the IPO and as subsequently amended and disclosed in the August Announcement.

REPORT OF DIRECTORS

USE OF PROCEEDS FROM PLACING

Reference is made to the Company's announcements dated 23 May 2015 and 5 June 2015. The Group successfully raised over HK\$314 million through the Placing of 19,041,900 Placing Shares to not less than six professional, institutional and other investors at the placing price of HK\$16.50 per Share on 5 June 2015 in order to strengthen its capital base and working capital position. Upon the completion of the Placing, the Company received gross proceeds of HK\$314,191,350 and net proceeds, after the deduction of the placing commission and other related expenses, of approximately HK\$310,160,000, representing a net issue price of approximately HK\$16.29 per Placing Share. As disclosed in the August Announcement, the Board had resolved to change the use of the remaining approximately HK\$310,160,000 out of the unutilised net proceeds from the Placing as at the date of the August Announcement for investments in the internet, media, and technology industry, and such investments may include equity, bonds, hybrid products such as convertible bonds in the primary or secondary market. It was further disclosed in the Company's announcement dated 28 December 2016 (the "December Announcement") that the Board had resolved to expand the use of approximately HK\$248,579,000, being the remaining unutilised net proceeds from the Placing as at the date of the December Announcement, for operations and investments in the internet, media and technology industry, and for working capital and other general corporate purposes. For further details in respect of the changes in the use of proceeds from the Placing, please refer to the August Announcement and the December Announcement.

As at 31 December 2017, the Group had utilised all of the net proceeds from the Placing in operations and investments in the internet, media and technology industry.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company had distributable reserves of approximately RMB1,132.2 million (as at 31 December 2016: RMB1,201.2 million), none of which had been proposed as final dividend for the year ended 31 December 2017.

FINANCIAL HIGHLIGHTS

A summary of the condensed consolidated results and financial position of the Group is set out on page 4 of this annual report.

CHARITABLE DONATIONS

Save for those disclosed in the paragraph headed "Contributions to the Society – Charitable Donation" in the Environmental, Social and Governance Report, no donation was made by the Group during the year ended 31 December 2017.

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group during the year ended 31 December 2017 are set out in note 14 to the Financial Statements.

REPORT OF DIRECTORS

BORROWINGS

During the year ended 31 December 2017, the Group did not have any short-term or long-term bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant unrecorded contingent liabilities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2017 and as at the Latest Practicable Date.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles, or the laws of the Cayman Islands, and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the Latest Practicable Date were:

Executive Directors

Mr. WANG Dongfeng (*Chairman and Chief Executive Officer*)

Ms. LIANG Na (*Chief Financial Officer*)

Mr. ZHANG Yang (*Chief Operations Officer*) (*appointed with effect from 31 August 2017*)

Non-executive Director

Mr. ZHANG Qiang

Independent Non-executive Directors

Mr. HOW Sze Ming

Ms. POON Philana Wai Yin

Mr. ZHAO Cong Richard

Mr. ZHANG Yang was appointed as the chief operations officer of the Company and an Executive Director on 31 August 2017 and will be eligible for re-election as an Executive Director at the Annual General Meeting to be held on 25 May 2018. The biographical information of Mr. ZHANG Yang has been disclosed on page 78 of this annual report.

In accordance with article 104 of the Articles, Ms. POON Philana Wai Yin, an Independent Non-executive Director shall retire from office by rotation at the Annual General Meeting and has indicated that she will not offer herself for re-election as Director and will retire after the conclusion of the Annual General Meeting, and Ms. LIANG Na, an Executive Director shall retire from office by rotation at the Annual General Meeting being eligible, will offer herself for re-election as Director at the Annual General Meeting.

REPORT OF DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 77 to 82 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. WANG Dongfeng (Executive Director) has entered into a service contract with the Company for an initial term of three years with effect from 1 September 2013 (which was subsequently renewed for a further term of three years) unless terminated by not less than three months' notice in writing served by either the Director or the Company. Each of Ms. LIANG Na (Executive Director) and Mr. ZHANG Qiang (Non-executive Director) has entered into a service contract and an appointment letter with the Company respectively for an initial term of three years with effect from 24 May 2016 unless terminated by not less than 30 days' notice in writing served by either the Director or the Company. Mr. ZHANG Yang (Executive Director) has entered into a service agreement with the Company for an initial term of three years with effect from 31 August 2017 unless terminated by not less than three months' notice in writing served by either the Director or the Company. Ms. POON Philana Wai Yin (Independent Non-executive Director) and Mr. ZHAO Cong Richard (Independent Non-executive Director) have signed appointment letters with the Company for an initial term of two years with effect from 1 September 2013 (which were subsequently renewed for two further terms with a term of two years each) unless terminated by not less than 30 days' notice in writing served by either the Independent Non-executive Director or the Company. Mr. HOW Sze Ming (Independent Non-executive Director) has signed an appointment letter with the Company for an initial term of two years with effect from 1 January 2016 (which was subsequently renewed for a further term of two years) unless terminated by not less than 30 days' notice in writing served by either the Independent Non-executive Director or the Company. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

None of the Directors who are proposed for election or re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive Directors, namely Mr. HOW Sze Ming, Ms. POON Philana Wai Yin and Mr. ZHAO Cong Richard, has confirmed to the Company their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has reviewed the independence of each of these Directors and considers all the Independent Non-executive Directors to be independent.

REPORT OF DIRECTORS

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and chief executives at the relevant time being in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director/ Chief Executive	Capacity/Nature of Interest	Relevant Company (Including Associated Corporation)	Relevant	Approximate Percentage of Shareholding
			Class of Shares/ Underlying Shares held	
WANG Dongfeng (汪東風)	Founder of the Discretionary Trust Interest of Controlled Corporation ⁽¹⁾ Beneficial Owner ⁽²⁾	The Company	21,673,338 Ordinary Shares (long position)	15.68%
		The Company	1,350,800 Ordinary Shares (long position)	0.98%
POON Philana Wai Yin (潘慧妍) ⁽³⁾	Beneficial Owner	The Company	166,900 Ordinary Shares (long position)	0.12%
ZHAO Cong Richard (趙聰) ⁽⁴⁾	Beneficial Owner	The Company	141,900 Ordinary Shares (long position)	0.10%
HOW Sze Ming (侯思明) ⁽⁵⁾	Beneficial Owner	The Company	100,000 Ordinary Shares (long position)	0.07%
ZHANG Qiang (張強) ⁽⁶⁾	Beneficial Owner	The Company	100,000 Ordinary Shares (long position)	0.07%
LIANG Na (梁娜) ⁽⁷⁾	Beneficial Owner	The Company	1,131,589 Ordinary Shares (long position)	0.82%

REPORT OF DIRECTORS

Notes:

- (1) Foga Group is wholly owned by Managecorp Limited as the trustee of Wang Trust. Wang Trust is a discretionary trust set up by Mr. WANG Dongfeng, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary objects of Wang Trust include Mr. WANG Dongfeng and certain of his family members. Mr. WANG Dongfeng and Managecorp Limited are taken to be interested in the 21,673,338 Shares held by Foga Group.
- (2) Mr. WANG Dongfeng was granted 500,000 RSUs under the Restricted Share Unit Scheme, 125,000 of which vested on 1 December 2016, 125,000 vested on 1 June 2017 and 125,000 vested on 1 December 2017. Mr. WANG Dongfeng bought an aggregate of 850,800 Shares during the period from 26 June to 13 July 2017.
- (3) Ms. POON Philana Wai Yin was interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 49,400 Shares, and the Post-IPO Share Option Scheme to subscribe for 17,500 Shares as at 31 December 2017. 17,500 Post-IPO Share Options in which she was interested lapsed on 31 March 2018. She was also granted 100,000 RSUs under the Restricted Share Unit Scheme, 25,000 of which vested on 1 December 2016, 25,000 vested on 1 June 2017 and 25,000 vested on 1 December 2017.
- (4) Mr. ZHAO Cong Richard was interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 49,400 Shares, and the Post-IPO Share Option Scheme to subscribe for 17,500 Shares as at 31 December 2017. 17,500 Post-IPO Share Options in which he was interested lapsed on 31 March 2018. He was also granted 100,000 RSUs under the Restricted Share Unit Scheme, 25,000 of which vested on 1 December 2016, 25,000 vested on 1 June 2017 and 25,000 vested on 1 December 2017. Mr. ZHAO Cong Richard sold 25,000 Shares vested under the RSU Scheme on 29 June 2017.
- (5) Mr. HOW Sze Ming was granted 100,000 RSUs under the Restricted Share Unit Scheme, 25,000 of which vested on 1 December 2016, 25,000 vested on 1 June 2017 and 25,000 vested on 1 December 2017.
- (6) Mr. ZHANG Qiang was granted 100,000 RSUs under the Restricted Share Unit Scheme, 25,000 of which vested on 1 December 2016, 25,000 vested on 1 June 2017 and 25,000 vested on 1 December 2017.
- (7) Ms. LIANG Na was interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 37,089 Shares, and the Post-IPO Share Option Scheme to subscribe for 416,500 Shares as at 31 December 2017. 87,500 Post-IPO Share Options in which she was interested lapsed on 31 March 2018. Ms. LIANG Na was also granted 820,000 RSUs under the Restricted Share Unit Scheme, 205,000 of which vested on 1 December 2016, 205,000 vested on 1 June 2017 and 205,000 vested on 1 December 2017. Ms. LIANG Na sold 142,000 Shares vested under the RSU Scheme from 18 July to 20 July 2017.

Save as disclosed above, none of the Directors or chief executives of the Company at the relevant time has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2017.

REPORT OF DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the following are the persons, other than the Directors or chief executives of the Company at the relevant time, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name	Capacity/Nature of Interest	Number and Class of Shares	Approximate Percentage of Shareholding
Managecorp Limited ^{(1) (2)}	Trustee	29,437,335 Ordinary Shares (long position)	21.30%
Foga Group ⁽¹⁾	Registered Owner	21,673,338 Ordinary Shares (long position)	15.68%
GU Wei	Registered Owner	16,073,000 Ordinary Shares (long position)	11.63%
LIAO Dong ⁽²⁾	Founder of Discretionary Trust Interest of Controlled Corporation	7,763,997 Ordinary Shares (long position)	5.62%
Foga Holdings ⁽²⁾	Registered Owner	7,763,997 Ordinary Shares (long position)	5.62%
KongZhong Corporation	Registered Owner	12,306,100 Ordinary Shares (long position)	8.91%
Foga Internet Development ⁽³⁾	Registered Owner	7,785,700 Ordinary Shares (long position)	5.63%
YANG Tao	Interest of Controlled Corporation ⁽³⁾	7,785,700 Ordinary Shares (long position)	5.63%
	Beneficial Owner ⁽⁴⁾	1,340,000 Ordinary Shares (long position)	0.97%

REPORT OF DIRECTORS

Notes:

- (1) Foga Group is wholly owned by Managecorp Limited as the trustee of Wang Trust. Wang Trust is a discretionary trust set up by Mr. WANG Dongfeng, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary objects of Wang Trust include Mr. WANG Dongfeng and certain of his family members. Mr. WANG Dongfeng and Managecorp Limited are taken to be interested in 21,673,338 Shares held by Foga Group.
- (2) Foga Holdings is wholly owned by Managecorp Limited as the trustee of Hao Dong Trust. Hao Dong Trust is a discretionary trust set up by Mr. LIAO Dong, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary object of Hao Dong Trust is Mr. LIAO Dong himself. Mr. LIAO Dong and Managecorp Limited are taken to be interested in 7,763,997 Shares held by Foga Holdings.
- (3) Foga Internet Development is wholly owned by Mr. YANG Tao. Mr. YANG Tao is taken to be interested in the 7,785,700 Shares held by Foga Internet Development.
- (4) Mr. YANG Tao was granted 1,340,000 RSUs under the Restricted Share Unit Scheme, 335,000 of which vested on 1 December 2016, 335,000 vested on 1 June 2017 and 335,000 vested on 1 December 2017.

Save as disclosed above, as at 31 December 2017, the Company is not aware of any other person (other than the Directors or chief executives of the Company at the relevant time) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors and chief executives' interests and short positions in shares, underlying shares and debentures" above, at no time during the year ended 31 December 2017 and up to the Latest Practicable Date was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Group (including the PRC Operational Entities), none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group for the year ended 31 December 2017.

REPORT OF DIRECTORS

MATERIAL ACQUISITION AND DISPOSAL

Save as disclosed in the section headed “Management Discussion and Analysis – Material Acquisition and Disposal” in this annual report, during the year ended 31 December 2017, the Group did not perform any material acquisition or disposal of subsidiaries and associated companies.

CONNECTED TRANSACTIONS

During the year ended 31 December 2017, no related parties transactions disclosed in note 33 to the Financial Statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Rules 14A.49 and 14A.71 of the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

CONTRACTUAL ARRANGEMENTS

Investment activities in the PRC by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment, which was most recently jointly amended by the Ministry of Commerce and the National Development and Reform Commission on 28 June 2017 and became effective on 28 July 2017 (the “Catalogue”). The Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign invested industries and prohibited foreign investment industries. According to the Catalogue, (i) the webpage and mobile game businesses currently operated by the Feidong PRC Operational Entities, namely Feiyin, Weidong and Jieyou, and (ii) the fintech business under the “Jianlicai” brand currently operated by the JLC PRC Operational Entities, principally Jinweilai, are regarded as value-added telecommunications services (except for e-commerce) and internet cultural business (except for music), and fall within the restricted industry category and the prohibited industry category, respectively.

Furthermore, according to the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, which were issued on 11 December 2001 by the State Council and amended on 10 September 2008, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including internet content provision services. Internet content provision services are classified as value-added telecommunications businesses, and a commercial operator of such services must obtain an ICP Licence from the appropriate telecommunications authorities in order to carry on any commercial internet content provision operations in China. A foreign investor who invests in a value-added telecommunications businesses in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “Qualification Requirement”).

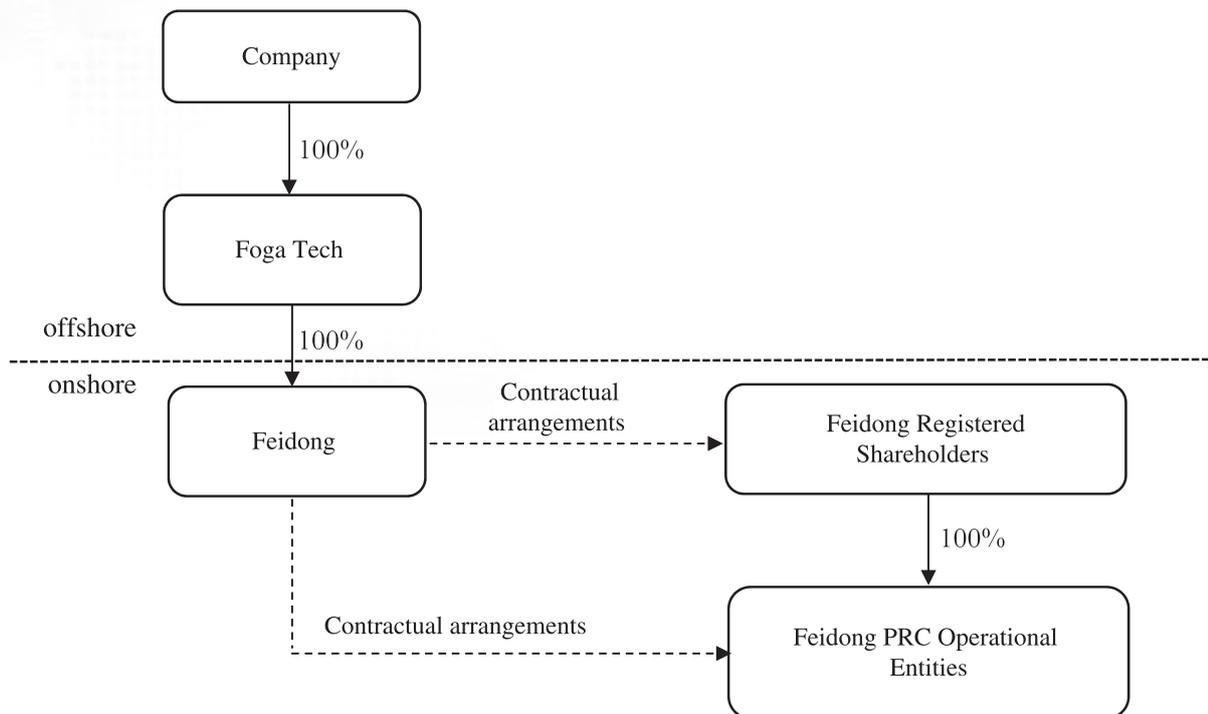
As advised by the Company’s PRC legal advisers, as at 31 December 2017, no applicable PRC laws, regulations or rules had provided clear guidance or interpretation on the Qualification Requirement, and there was no update to the Qualification Requirement. Further, the amendments made on the Catalogue in April 2015 and in July 2017 did not lessen the requirements in respect of foreign investments on value-added telecommunications services and internet cultural business.

REPORT OF DIRECTORS

A. Feidong Contractual Arrangements

In order for the Company to be able to carry on its businesses in China including webgame and mobile game businesses, operations and investments in the fintech business (including internet micro-credit in the PRC) and provision of information technology services, the Group has in place the Feidong Contractual Arrangements between Feidong, on one hand, the Feidong PRC Operational Entities and their respective shareholders on the other hand, which enable the Company to exercise control over the Feidong PRC Operational Entities, and to consolidate the financial results of Feidong PRC Operational Entities in the results of the Company under IFRSs as if they were wholly-owned subsidiaries of the Company.

The table below sets out a simplified structure of the Feidong Contractual Arrangements:



REPORT OF DIRECTORS

Summary of the major terms of the structured contracts under the Feidong Contractual Arrangements

The following sets out a summary of the major terms of the structured contracts under the Feidong Contractual Arrangements which were in place during the year ended 31 December 2017:

- i. Exclusive options agreements dated June and July 2012, which were amended and restated on 12 September 2013, entered into between each of the Feidong PRC Operational Entities, their respective shareholders, and Feidong, under which Feidong was granted an exclusive irrevocable option to purchase from the respective shareholders some or all of their equity interests in the Feidong PRC Operational Entities at any time, at a nominal amount subject to applicable PRC laws.
- ii. Exclusive business cooperation agreements dated 21 June 2012, which were amended and restated on 12 September 2013, entered into between each of the Feidong PRC Operational Entities and Feidong, under which each of the Feidong PRC Operational Entities agreed to engage Feidong as its exclusive provider of business support, technical and consulting services, including network support, business consultations, intellectual property development, equipment leasing, marketing consultancy, system integration, product research and development and system maintenance, in exchange for a monthly service fee. The monthly fee is, subject to Feidong's adjustment, equal to 100% of the net income of the Feidong PRC Operational Entities and may also include accumulated earnings of the Feidong PRC Operational Entities from previous financial years. Pursuant to the exclusive business cooperation agreements, Feidong also has the exclusive and proprietary rights to all intellectual properties developed by the Feidong PRC Operational Entities.
- iii. Share pledge agreements dated July 2012, which were amended and restated on 12 September 2013, entered into between each of the Feidong PRC Operational Entities, its respective shareholders, and Feidong, under which the shareholders of the Feidong PRC Operational Entities pledged all of their respective equity interests in the Feidong PRC Operational Entities to Feidong as collateral security for all of their payments due to Feidong and to secure performance of their obligations under the above-mentioned exclusive business cooperation agreements.
- iv. Irrevocable powers of attorney executed in June and July 2012, which were amended and restated on 12 September 2013, executed by each of the shareholders of the Feidong PRC Operational Entities to appoint Feidong as the exclusive agent and attorney to act on their behalf on all matters concerning the Feidong PRC Operational Entities and to exercise all of their rights as registered shareholders of the Feidong PRC Operational Entities.

For details of the Contractual Arrangements, please refer to the section headed "Contractual Arrangements" in the Prospectus.

During the year ended 31 December 2017, (i) there were no new contractual arrangements entered into, renewed or reproduced between the Group and the Feidong PRC Operational Entities, (ii) there were no material changes in the Feidong Contractual Arrangements or the circumstances under which they were adopted, and (iii) none of the structured contracts under the Feidong Contractual Arrangement mentioned above has been unwound as none of the restrictions that led to the adoption of structured contracts under the Feidong Contractual Arrangements have been removed.

REPORT OF DIRECTORS

Particulars of the Feidong PRC Operational Entities as at 31 December 2017:

Name of the Feidong PRC Operational Entities	Type of legal entity/place of establishment and operation	Registered owners	Business activities
Feiyin	Limited liability company/the PRC	41.10% by Mr. Huang 24.70% by Mr. Liao 23.75% by Mr. Wang 9.50% by Mr. Zhuang 0.95% by Mr. Yang	Development of webgames and mobile games; operations and investments in the fintech business (through Yunke, a wholly-owned subsidiary of Feiyin established under the laws of the PRC in 2016)
Weidong	Limited liability company/the PRC	41.10% by Mr. Huang 24.70% by Mr. Liao 23.75% by Mr. Wang 9.50% by Mr. Zhuang 0.95% by Mr. Yang	Development and operation of webgames and mobile games
Jieyou	Limited liability company/the PRC	48.61% by Mr. Zhuang 20.94% by Mr. Wang 17.13% by Mr. Liao 12.37% by Mr. Huang 0.95% by Mr. Yang	Development and operation of webgames and mobile games

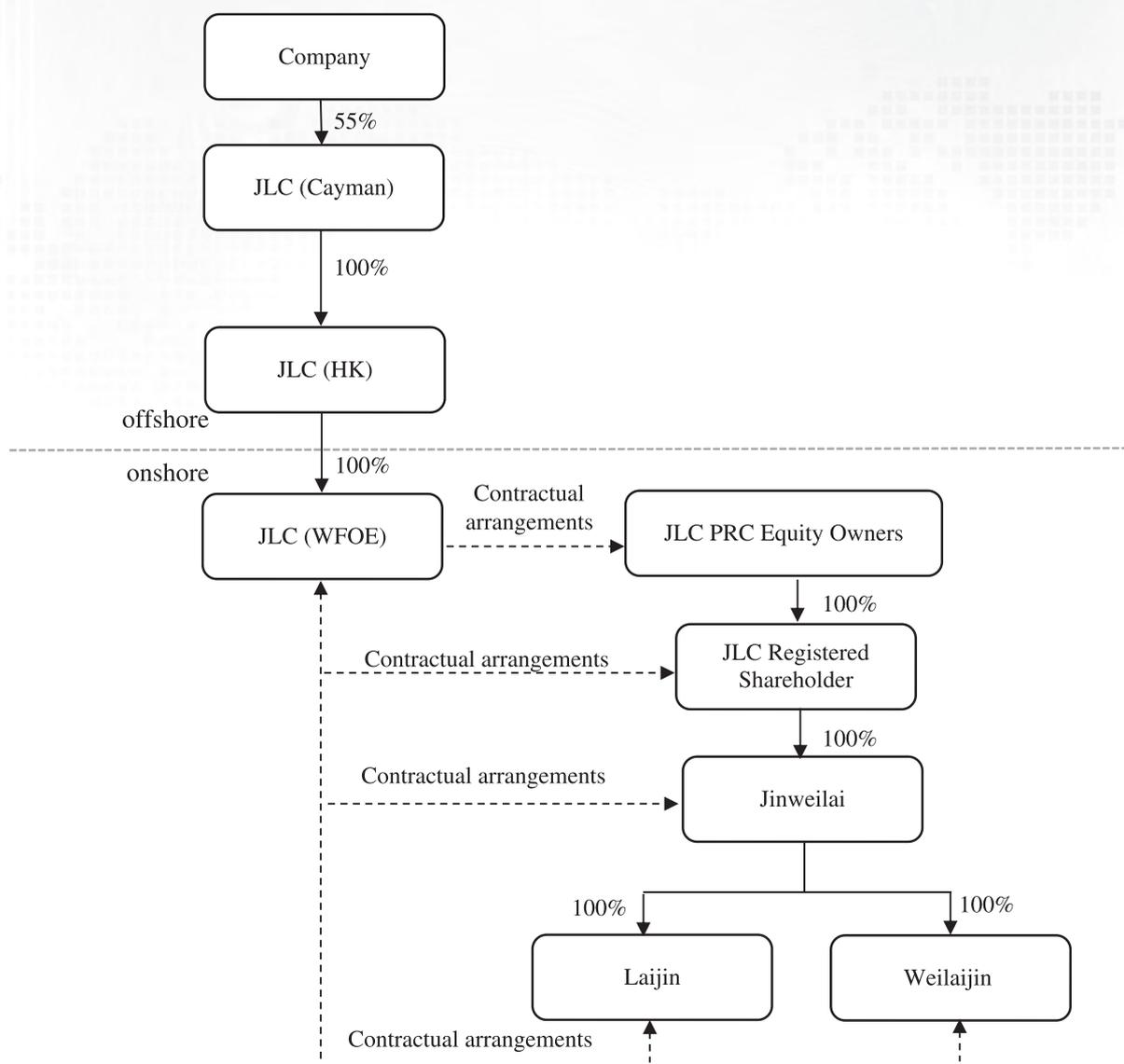
The Feidong PRC Operational Entities are significant to the Group as they hold certain licences and permits that are essential to the operations of the webgame and mobile game businesses and internet micro-credit in the PRC of the Group, such as the ICP Licence, the Network Cultural Business Permit, the Internet Publication Licence and the internet micro-credit business licence (《江西省小額貸款公司經營許可證》) in the PRC. In addition, most of the intellectual property rights relating to such businesses, including software copyrights, trademarks, patents and domain names, are held by the Feidong PRC Operational Entities.

The Feidong PRC Operational Entities have undertaken to the Company that, for so long as the Shares are listed on the Stock Exchange, the Feidong PRC Operational Entities will provide the Group's management and the auditors of the Company with full access to its relevant records for the purpose of procedures to be carried out by the auditors of the Company on the transactions contemplated under the Feidong Contractual Arrangements.

REPORT OF DIRECTORS

B. JLC Contractual Arrangements

As set out above, pursuant to the applicable PRC laws, the value-added telecommunications business (Information Service via Internet and mobile network) of the JLC PRC Operational Entities is subject to restriction on foreign investment. As such, each of the JLC PRC Operational Entities, the JLC Registered Shareholder and their respective shareholders, and JLC (WFOE) have entered into the JLC Contractual Arrangements to enable the financial results, the entire economic benefits and risks of the businesses of the JLC PRC Operational Entities to flow into JLC (WFOE) and to enable JLC (WFOE) to gain the controlling right of the JLC PRC Operational Entities. The table below sets out a simplified structure of the JLC Contractual Arrangements:



REPORT OF DIRECTORS

Summary of the major terms of the structured contracts under the JLC Contractual Arrangements

The following sets out a summary of the major terms of the structured contracts under the JLC Contractual Arrangements which were in place during the year ended 31 December 2017:

- i. exclusive options agreements dated 31 July 2017 and entered into among (i) the registered shareholders of the respective JLC VIE Controlled Entity, (ii) JLC (WFOE), and (iii) the respective JLC VIE Controlled Entity, pursuant to which the registered shareholder(s) of respective JLC VIE Controlled Entity irrevocably agree(s), to the extent permitted under the laws of the PRC, to transfer to JLC (WFOE) or any persons(s) designated by JLC (WFOE), all or in tranches of its equity interest in the respective JLC VIE Controlled Entity, at a minimum purchase price permitted by the PRC laws and regulations (the “Agreed Price”). The registered shareholder(s) of the respective JLC VIE Controlled Entity will undertake to reimburse JLC (WFOE) (or the person as designated by JLC (WFOE)), any difference between the actual consideration JLC (WFOE) (or the person as designated by JLC (WFOE)) paid pursuant to the exercise of the option(s) and the Agreed Price. JLC (WFOE) may exercise such options at any time until it or the person(s) designated by it has acquired the entire interest of the JLC VIE Controlled Entities.
- ii. exclusive business cooperation agreements dated 31 July 2017 and entered into between the respective JLC VIE Controlled Entity and JLC (WFOE), pursuant to which the respective JLC VIE Controlled Entity engages JLC (WFOE) on an exclusive basis to provide business and technical consultancy services in connection with the business of the respective JLC VIE Controlled Entity. In consideration of the provision of business and technical consultancy services, the respective JLC VIE Controlled Entity will pay JLC (WFOE) a service fee equivalent to 100% of the income and interests of the respective JLC VIE Controlled Entity every year after deduction of necessary costs, expenses, taxes and mandatory reserves.
- iii. equity pledge agreements dated 31 July 2017 and entered into among (i) the registered shareholders of the respective JLC VIE Controlled Entity, (ii) JLC (WFOE), and (iii) the respective JLC VIE Controlled Entity, pursuant to which the registered shareholder(s) agree(s) to pledge all equity interest in the respective JLC VIE Controlled Entity held by the registered shareholders to JLC (WFOE).
- iv. irrevocable power of attorney dated 31 July 2017 and entered into among the registered shareholder(s) of the respective JLC VIE Controlled Entity, pursuant to which the registered shareholder(s) irrevocably and unconditionally undertake(s) to authorise JLC (WFOE) or any person as designated by JLC (WFOE) to exercise on their behalf full shareholders’ rights under the articles of association of the respective JLC VIE Controlled Entity and applicable PRC laws and regulations, including, but not limited to (i) the right to convene, attend the shareholders’ meetings and vote and sign minutes of shareholders’ meetings and shareholders’ resolutions, (ii) exercising all shareholder’s rights under PRC laws and the articles of association of the respective JLC VIE Controlled Entity, including but not limited to selling, transferring or disposing of entire or any part of the equity interests thereof, (iii) appointing the legal representatives, director, supervisor, chief executive or other senior management thereof, and (iv) the right to file documents with the relevant companies registry. The registered shareholder(s) also undertake(s) that in the event of its bankruptcy, liquidation, or loss of legal capacity it will do all actions to ensure its successor(s) will join in and be bound by the terms of the irrevocable power of attorney and the rights and obligations thereunder.

REPORT OF DIRECTORS

- v. a spousal consent letter dated 31 July 2017 and issued by the spouse of Mr. Guo Yong, pursuant to which the spouse of Mr. Guo Yong unconditionally and irrevocably, (i) acknowledges that all the equity interests of the JLC Registered Shareholder registered under the name of Mr. Guo Yong does not form part of her matrimonial property, (ii) undertakes that she will not claim any remedy in respect of the equity interests in the JLC Registered Shareholder, and (iii) confirms that the performance or amendments of the JLC Structured Contracts do not require her consent or approval.

For details of the JLC Contractual Arrangements, please refer to the announcement of the Company dated 25 June 2017.

Between the completion of the acquisition of 55% equity interest in JLC (Cayman) on 16 August 2017 and the end of 2017, (i) there were no new contractual arrangements entered into, renewed or reproduced between the Group and the JLC PRC Operational Entities; (ii) there were no material changes in the JLC Contractual Arrangements or the circumstances under which they were adopted; and (iii) none of the structured contracts under the JLC Contractual Arrangement mentioned above has been unwound as none of the restrictions that led to the adoption of structured contracts under the JLC Contractual Arrangements have been removed.

Particulars of the JLC PRC Operational Entities as at 31 December 2017:

Name of the JLC PRC Operational Entities	Type of legal entity/place of establishment and operation	Registered owners	Business scope
Jinweilai	Limited liability company/the PRC	100% by JLC Registered Shareholder	Provision of finance information technology services
Weilaijin	Limited liability company/the PRC	100% by Jinweilai	Provision of finance consulting services and technology services
Laijin	Limited liability company/the PRC	100% by Jinweilai	Provision of investment consulting services

The JLC PRC Operational Entities are significant to the Group as they hold certain licences and permits that are essential to the operations of the fintech business under the “Jianlicai” brand of the Group, such as the ICP Licence. In addition, most of the intellectual property rights relevant to such operations, including software copyrights, trademarks, patents and domain names, are held by the JLC PRC Operational Entities.

The JLC PRC Operational Entities have undertaken to the Company that, for so long as the Shares are listed on the Stock Exchange, the JLC PRC Operational Entities will provide the Group’s management and the auditors of the Company with full access to its relevant records for the purpose of procedures to be carried out by the auditors of the Company on the transactions contemplated under the JLC Contractual Arrangements.

REPORT OF DIRECTORS

C. Requirements related to the Contractual Arrangements (other than relevant foreign ownership restrictions)

As advised by the Company's PRC legal advisers, requirements related to the Contractual Arrangements (other than relevant foreign ownership restrictions) include:

- i. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the state, (ii) malicious collusion is conducted to damage the interest of the state, a collective unit or a third party, (iii) the contract damages the public interest, (iv) an illegitimate purpose is concealed under the guise of legitimate acts or (v) the contract violates the mandatory provisions of the laws or administrative regulations. As advised by the Company's PRC legal advisers, the relevant terms of the Contractual Arrangements do not fall within any of the aforementioned five circumstances, and in particular, would not be deemed as "concealing an illegitimate purpose under the guise of legitimate acts" under Article 52 of the PRC Contract Law, and do not violate the provisions of the PRC Contract Law or the General Principles of the PRC Civil Law. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and future PRC laws and regulations, and there can be no assurance that any PRC government agency will not take a view that is contrary to or otherwise different from the above.
- ii. According to the Contractual Arrangements, when a dispute arises, any party to the agreements may submit such dispute to the China International Economic and Trade Arbitration Commission for settlement pursuant to the effective arbitration rules at that time, and the arbitration award shall be final and binding on the parties. Arbitration tribunal may decide compensation for the equity interests and property ownership of the on-shore subsidiaries, decide enforceable remedy or demand liquidation of relevant business or enforceable asset transfer. Any party is entitled to request the competent court to execute the arbitration award when it comes into effect. The courts in Hong Kong and Cayman Islands also have the right to grant or execute awards of arbitration tribunal and make decision or execute temporary remedy on the equity interests and property ownership of the on-shore subsidiaries. However, pursuant to the laws of China, in the settlement of dispute, the arbitration tribunals shall not be entitled to grant an injunctive order to protect the property ownership or equity interests of the on-shore subsidiaries, and shall not issue a temporary or final liquidation order directly. Moreover, the interim remedies or orders granted by the off-shore courts, including Hong Kong and Cayman Islands, may not be recognised or enforced by the courts in China. Therefore, such terms in above agreements may not be enforceable under the laws of China.

REPORT OF DIRECTORS

D. Progress of overseas expansion plans

Despite the lack of clear guidance or interpretation on the Qualification Requirement, the Company has been gradually building up the track record of overseas telecommunications business operations. Since 2016, the Group had expanded its game business to overseas markets by launching “Liberators” in the United States and other countries. Once PRC laws allow foreign investors to invest in value-added telecommunications enterprises in China, the Group would seek qualification to acquire the entire equity interests of the PRC Operational Entities as early as possible.

The Group had terminated the operation of the Taiwan office as disclosed in the 2016 annual report, and the Hong Kong office continued with its presence and operation. The Hong Kong office mainly provides managerial support to the Group.

E. Revenue and assets subject to the structured contracts under the Contractual Arrangements

For the year ended 31 December 2017, (i) the services provided by Feidong to the Feidong PRC Operational Entities, including provision of product development and system maintenance services and provision of business support services, amounted to an aggregate of approximately RMB25.1 million, and (ii) the services provided by JLC (WFOE) to the JLC PRC Operational Entities was nil.

The revenue and the total asset value of the Feidong PRC Operational Entities subject to the Feidong Contractual Arrangements amounted to approximately RMB153.7 million for the year ended 31 December 2017 and approximately RMB1,067.9 million as at 31 December 2017, respectively.

The revenue and the total asset value of the JLC VIE Controlled Entities subject to the JLC Contractual Arrangements amounted to approximately RMB109.5 million for the year ended 31 December 2017 and approximately RMB279.0 million as at 31 December 2017, respectively.

REPORT OF DIRECTORS

F. Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks

Risk associated with the Contractual Arrangements

- i. If the PRC government finds that the underlying agreements of the Contractual Arrangements that establish the structure for operating the business of the Company in the PRC do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe penalties or be forced to relinquish the interests in those operations.

Mitigation actions taken by the Company

Pursuant to the relevant exclusive business cooperation agreements under the Contractual Arrangements, at any time after the date of such agreements, in the event of any promulgation or change of any law, regulation or rule of China or any interpretation or applicable change of such laws, regulations or rules, the following agreements shall be applicable: If the economic interests of any party under the agreements suffer a significant adverse effect directly or indirectly due to above change of laws, regulations or rules, the agreements should continue to operate pursuant to the original terms. Each of the parties shall obtain a waiver for complying with such change or rule via all legal channels. If any adverse effect on the economic interests of any party may not be eliminated according to the relevant agreement, upon the receipt by the other parties of such notice from the affected party, all the parties shall promptly discuss and make all necessary modification to the agreements to preserve the economic interests of the affected party under the agreement.

REPORT OF DIRECTORS

Risk associated with the Contractual Arrangements

- ii. The Contractual Arrangements may not be as effective in providing operational control as direct ownership and the PRC Operational Entities or their shareholders may fail to perform their obligations under the Contractual Arrangements.

- iii. The Company may lose the ability to use and enjoy assets held by the PRC Operational Entities that are important to the operation of the business of the Group if the PRC Operational Entities declare bankruptcy or become subject to dissolution or liquidation proceedings.

Mitigation actions taken by the Company

According to the relevant powers of attorney, share pledge agreements and exclusive business cooperation agreements under the Contractual Arrangements, the arbitration tribunal may decide (i) compensation for the equity interests or property ownership of the PRC Operational Entities or their shareholders, or (ii) enforceable remedy or to demand bankruptcy of the PRC Operational Entities or their shareholders for relevant business or enforceable asset transfer. Any party is entitled to request a competent court to execute the arbitration award when it comes into effect.

Pursuant to the relevant exclusive option agreements under the Contractual Arrangements, in the event of a mandatory liquidation required by the laws of the PRC, (i) the relevant Feidong PRC Operational Entities shall sell all of their assets and any residual interest through a non-reciprocal transfer to the extent permitted by the laws of the PRC to Feidong or another qualifying entity designated by Feidong, at the lowest selling price permitted by applicable laws of the PRC, and (ii) the relevant JLC PRC Operational Entities shall sell all of their assets and any residual interest through a non-reciprocal transfer to the extent permitted by the laws of the PRC to JLC (WFOE) or another qualifying entity designated by JLC (WFOE), at the lowest selling price permitted by applicable laws of the PRC.

REPORT OF DIRECTORS

Risk associated with the Contractual Arrangements

- iv. The Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that the Group owes additional taxes could substantially reduce the consolidated net income of the Group and the value of the investment of the Shareholders.

- v. The Group may be subject to higher income tax rates and incur additional taxes as a result of the Contractual Arrangements, which may increase the overall tax expenses and decrease the overall profit margin of the Group.

Mitigation actions taken by the Company

As advised by the Company's PRC legal advisers, who took the view that the Contractual Arrangements will not be challenged by the PRC tax authorities or other government authorities unless the PRC tax authorities determine that such transactions are not conducted on an arm's length basis, provided that (i) Feidong and the Feidong PRC Operational Entities implement the Feidong Contractual Arrangements in accordance with the terms of the structured contracts, and (ii) JLC (WFOE) and the JLC PRC Operational Entities implement the JLC Contractual Arrangements in accordance with the terms of the structured contracts.

Pursuant to the PRC Enterprise Income Tax Law, Feidong qualified as "high and new technology enterprise" and was entitled to preferential income tax rates during preferential periods as disclosed in note 12 to the Financial Statements. Feidong will use reasonable endeavours to take all necessary actions to maintain its qualification status in order to continue to enjoy the preferential tax treatment.

Please also refer to paragraph iv above.

REPORT OF DIRECTORS

Risk associated with the Contractual Arrangements

- vi. Shareholders of the PRC Operational Entities may potentially have a conflict of interest with the Group, and such shareholders may breach their contracts with the Group, or cause such contracts to be amended in a manner contrary to the interests of the Group.

Mitigation actions taken by the Company

The shareholders of the PRC Operational Entities have undertaken to Feidong and JLC (WFOE), respectively, that during the period when the Contractual Arrangements remain effective, (i) unless otherwise agreed by Feidong or JLC (WFOE) in writing, the relevant shareholder would not, directly or indirectly (either on his own account or through any natural person or legal entity) participate, be interested in, engage in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may potentially be in competition with the businesses of the PRC Operational Entities or any of its affiliates and (ii) any of his actions or omissions would not lead to any conflict of interest between him and Feidong and JLC (WFOE) (including but not limited to its shareholders). Furthermore, in the event of the occurrence of a conflict of interest where Feidong or JLC (WFOE) has the sole absolute discretion to determine whether such conflict arises, he agrees to take any appropriate actions as instructed by Feidong or JLC (WFOE).

REPORT OF DIRECTORS

Risk associated with the Contractual Arrangements

- vii. The Group depends on the PRC Operational Entities to provide certain services that are critical to its business. The breach or termination of any of these service agreements or any failure of or significant quality deterioration in these services could have a material adverse effect on the business, financial condition and results of operations of the Group.

- viii. The Group conducts its business operation in the PRC through the PRC Operational Entities by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under the PRC laws.

- ix. If Feidong or JLC (WFOE) (or their designee within the Group) exercises the option to acquire equity ownership of the PRC Operational Entities, the ownership transfer may subject the Group to substantial costs.

Mitigation actions taken by the Company

To ensure sound and effective operation of the Group after the adoption of the Contractual Arrangements, the relevant business units and operation divisions of the Group will report regularly, no less frequent than on a monthly basis, to the senior management of the Company on the compliance and performance conditions under the Contractual Arrangements and other related matters. In addition, the PRC Operational Entities are not permitted to terminate the relevant exclusive business cooperation agreements under the Contractual Arrangements unless Feidong or JLC (WFOE) commits gross negligence or a fraudulent act against them.

As advised by the Company's PRC legal advisers, save as disclosed in the paragraph headed "G. Deviation from the guidance letter in respect of the Contractual Arrangements" below, the Contractual Arrangements were narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations.

According to the relevant exclusive option agreements under the Contractual Arrangements, unless valuation is required under the laws of China before exercising such option, the purchase price of the equity interests shall be the nominal price, and if the relevant governmental authorities specify a particular price as the purchase price of equity interests, the purchaser shall return the surplus or make up the difference to the vendor, provided that the vendor and purchaser need to assume such tax incurred by such party or levied on such party, respectively.

REPORT OF DIRECTORS

For details of the risks associated with the Feidong Contractual Arrangements, please refer to the section headed “Risk Factors – Risks relating to our Feidong Contractual Arrangements” in the Prospectus.

For details of the risks associated with the JLC Contractual Arrangements, please refer to the section headed “Risk Factors” of the announcement of the Company dated 25 June 2017.

G. Deviation from the guidance letter in respect of the Contractual Arrangements

Paragraph 16(a) (i) of the Guidance Letter GL77-14 published by the Stock Exchange in May 2014 (as updated in August 2015) in relation to listed issuers using contractual arrangements for their businesses (the “Guidance Letter”) requires that structured contracts shall be narrowly tailored to achieve the issuer’s business purpose and minimise the potential for conflict with relevant PRC laws and regulations. As advised by the PRC legal advisers, according to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services (except for e-commerce). Furthermore, to the best knowledge of the Company and the PRC legal advisers, if a Sino-Foreign equity joint-venture enterprise applies for an ICP licence, it will be subject to more stringent requirements or additional requirements imposed by the MIIT or its local counterparts (the “Relevant Authority”) as compared to domestic enterprises in the PRC. As compared to domestic enterprises in the PRC, the Relevant Authority will require more information, documents and other proof from an applicant which is a Sino-Foreign equity enterprise in various aspects, such as the identity and nationality of its ultimate individual shareholders, the prior experience of the foreign investor(s) in operating value-added telecommunications businesses and a proven track record of its overseas business operations (collectively, the “Additional Information”). No criteria, standard, guidance or interpretation documents have been published by the Relevant Authority on how the Additional Information will be assessed, whether in qualitative or quantitative aspect, and on the extent or form of requirements of the Additional Information.

H. Chapter 14A implications

Feidong Contractual Arrangements

Waiver from the Stock Exchange and Annual Review

For the purposes of Chapter 14A of the Listing Rules, certain transactions under the Feidong PRC Contractual Agreements constitute continuing connected transactions under the Listing Rules. The Stock Exchange has granted a specific waiver to the Company from strict compliance with the connected transactions requirement under Chapter 14A of the Listing Rules in respect of the Feidong Contractual Arrangements. For details, please refer to the section headed “Connected Transactions” in the Prospectus.

The Directors are of the opinion that the transactions under the Feidong Contractual Arrangements were conducted in the ordinary course of business of the Group.

REPORT OF DIRECTORS

Pursuant to Rule 14A.55 of the Listing Rules, the Independent Non-executive Directors have reviewed the continuing connected transactions under the Feidong Contractual Arrangements and confirmed that these continuing connected transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Independent Non-executive Directors have also confirmed that (i) the transactions carried out during the year ended 31 December 2017 have been entered into in accordance with the relevant provisions of the Feidong Contractual Arrangements, (ii) no dividends or other distributions have been made by the Feidong PRC Operational Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group, and (iii) there were no new contracts entered into, renewed or reproduced between the Group and the Feidong PRC Operational Entities during the year ended 31 December 2017. Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain agreed-upon procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transaction under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants on the aforesaid continuing connected transactions. Based on the work performed, the auditors of the Company have provided a letter to the Board confirming that:

- 1. nothing has come to their attention that causes the auditors of the Company to believe that the disclosed continuing connected transactions have not been approved by the Board;
- 2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditors of the Company to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- 3. nothing has come to their attention that causes the auditors of the Company to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Feidong Contractual Arrangements governing such transactions; and
- 4. nothing has come to their attention that causes the auditors of the Company to believe that dividends or other distributions have been made by the Feidong PRC Operational Entities to the holders of its equity interests which are not otherwise subsequently assigned/transferred to the Group.

REPORT OF DIRECTORS

After the Listing Date and up to the Latest Practical Date, among the Founders, (i) Mr. Huang retired as Director on 27 May 2014 and resigned from all positions held within the Group with effect from 1 April 2015, but remains as a 41.10% registered shareholder of Feiyin and Weidong, (ii) Mr. Liao retired as Director on 27 May 2014 and resigned from all positions held within the Group with effect from 1 April 2015, but remains as a 24.70% registered shareholder of Feiyin and Weidong and a 17.13% registered shareholder of Jieyou, and (iii) Mr. Zhuang resigned as Director and from all positions held within the Group with effect from 1 April 2015, but remains as a 48.61% registered shareholder of Jieyou.

JLC Contractual Arrangements

Pursuant to Chapter 14A of the Listing Rules, the JLC PRC Operational Entities do not fall within the definition of “Connected Person”. Accordingly, the JLC Contractual Arrangements and the transactions between the JLC PRC Operational Entities and JLC (WFOE) do not constitute continuing connected transactions of the Company under the Listing Rules.

DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director or his connected entities had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its parent company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2017 and up to the Latest Practicable Date.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2017 and up to the Latest Practicable Date.

REPORT OF DIRECTORS

REMUNERATION POLICY AND DIRECTORS' REMUNERATION

As at 31 December 2017, the Group had 422 employees. The remuneration to the employees of the Group includes salaries, bonus and allowances. The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. The Group also provides intensive customised trainings to its staff to enhance their technical and product knowledge as they will be designated to mentors who are experienced employees in relevant teams or departments. The mentors will provide regular on-the-job trainings to the staff. The Group offers competitive remuneration packages to the Directors, and the Shareholders have authorised the Board to fix the remuneration of the Directors (including but not limited to Directors' fees) at the Company's annual general meeting held on 23 May 2017. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

The Group has also adopted Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme and Restricted Share Unit Scheme as long-term incentive schemes of the Group.

Details of the Directors' remuneration during the year ended 31 December 2017 are set out in note 37 to the Financial Statements.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme by a resolution of its Shareholders on 31 October 2012, which was amended on 1 September 2013. The Pre-IPO Share Option Scheme is not subject to the provision of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Scheme does not involve the grant of options by the Company to subscribe for Shares once the Company is a listed issuer. No further options will be granted under the Pre-IPO Share Option Scheme.

Pursuant to the Pre-IPO Share Option Scheme, the Company had granted options to subscribe for 6,440,911 Shares to the Directors and employees of the Group.

REPORT OF DIRECTORS

Set out below are details of the outstanding options granted to Directors and employees of the Group under the Pre-IPO Option Scheme:

Name of grantee	Number and class of Shares under the options granted	Date of grant	Vesting year	Option year	Outstanding as at 1 January 2017	Exercise price	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2017
Directors										
LIANG Na	157,589 Ordinary Shares	1 January 2013	3 October 2013 to 1 May 2016	10 years from the date of grant	82,089 Ordinary Shares	Par value of the ordinary shares	45,000 Ordinary Shares	—	—	37,089 Ordinary Shares
POON Philana Wai Yin	49,400 Ordinary Shares	1 September 2013	3 October 2013 to 1 September 2015	10 years from the date of grant	49,400 Ordinary Shares	Par value of the ordinary shares	—	—	—	49,400 Ordinary Shares
ZHAO Cong Richard	49,400 Ordinary Shares	1 September 2013	3 October 2013 to 1 September 2015	10 years from the date of grant	49,400 Ordinary Shares	Par value of the ordinary shares	—	—	—	49,400 Ordinary Shares
Sub-Total	256,389 Ordinary Shares	—	—	—	180,889 Ordinary Shares	—	45,000 Ordinary Shares	—	—	135,889 Ordinary Shares
One former Director and 361 employees	6,184,522 Ordinary Shares	1 January 2013 to 1 September 2013	3 October 2013 to 1 July 2017	10 years from the date of grant	1,012,834 Ordinary Shares	Par value of the ordinary shares	570,734 Ordinary Shares (Note)	—	—	442,100 Ordinary Shares
Total	6,440,911 Ordinary Shares	—	—	—	1,193,723 Ordinary Shares	—	615,734 Ordinary Shares	—	—	577,989 Ordinary Shares

Note: The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$9.58 (equivalent to approximately RMB8.31) per share.

As a result of the exercise of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2017, the Company has issued 615,734 Shares to the grantees for an aggregate consideration of US\$61.5734. Such Shares are of the same class and are identical in all respect with other Shares in issue.

For further details of the Pre-IPO Share Option Scheme, please refer to the section headed “Statutory and General Information” in Appendix IV to the Prospectus and note 25a to the Financial Statements.

REPORT OF DIRECTORS

POST-IPO SHARE OPTION SCHEME

The Company has approved and adopted the Post-IPO Share Option Scheme by a resolution of its Shareholders on 1 September 2013 and a resolution of the Board on 1 September 2013. The Post-IPO Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules.

The Company has granted options to subscribe for (i) 1,908,000 Shares to employees of the Group on 2 January 2015 and (ii) 3,845,000 Shares to Directors and employees of the Group on 10 June 2015.

Set out below are details of the outstanding options granted to the Directors and employees of the Group under the Post-IPO Share Option Scheme:

Name of grantee	Number and class of Shares under the options granted	Date of grant	Vesting year	Option year	Outstanding as at 1 January 2017	Exercise price	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2017
LIANG Na	329,000 Ordinary Shares	2 January 2015	2 July 2015 to 2 January 2017	4 years from the date of grant	329,000 Ordinary Shares	HK\$14.61	—	—	—	329,000 Ordinary Shares
14 employees	1,579,000 Ordinary Shares	2 January 2015	2 July 2015 to 2 January 2017	4 years from the date of grant	1,094,000 Ordinary Shares	HK\$14.61	15,000 Ordinary Shares	—	—	1,079,000 Ordinary Shares
LIANG Na ⁽¹⁾	350,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	262,500 Ordinary Shares	HK\$24.29	—	—	175,000 Ordinary Shares	87,500 Ordinary Shares
POON Philana ⁽²⁾ Wai Yin	70,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	52,500 Ordinary Shares	HK\$24.29	—	—	35,000 Ordinary Shares	17,500 Ordinary Shares
ZHAO Cong ⁽³⁾ Richard	70,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	52,500 Ordinary Shares	HK\$24.29	—	—	35,000 Ordinary Shares	17,500 Ordinary Shares
Two former Directors and 20 employees	3,355,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	487,500 Ordinary Shares	HK\$24.29	—	—	455,000 Ordinary Shares	32,500 Ordinary Shares
Total	5,753,000 Ordinary Shares	—	—	—	2,278,000 Ordinary Shares	—	15,000 Ordinary Shares	—	700,000 Ordinary Shares	1,563,000 Ordinary Shares

REPORT OF DIRECTORS

Notes:

- (1) 87,500 Post-IPO Share Options in which Ms. LIANG NA was interested lapsed on 31 March 2018.
- (2) 17,500 Post-IPO Share Options in which Ms. POON Philana Wai Yin was interested lapsed on 31 March 2018.
- (3) 17,500 Post-IPO Share Options in which Mr. ZHAO Cong Richard was interested lapsed on 31 March 2018.

Note: (1) The closing prices of the shares immediately before the dates on which the options were granted on 2 January 2015 and 10 June 2015 were HK\$14.70 and HK\$23.05 respectively.

- (2) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$16.47 (equivalent to approximately RMB14.29).

As a result of the exercise of the options granted under the Post-IPO Share Option Scheme during the year ended 31 December 2017, the Company has issued 15,000 Shares to the grantees for an aggregate consideration of HK\$219,150. Such Shares are of the same class and are identical in all respect with other Shares in issue.

For further details of the Post-IPO Share Option Scheme, please refer to the section headed “Statutory and General Information” in Appendix IV to the Prospectus and note 25b to the Financial Statements.

SUMMARY OF THE SHARE OPTION SCHEMES

Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
1. Purpose	For the purpose of providing incentives and rewards to eligible persons who contribute to the growth and development of the Group and the listing of the Shares on the Stock Exchange	To reward eligible participants for their past contribution to the success of the Group, and to provide incentives to them to further contribute to the Group
2. Participants	(i) Any Director of any member of the Group from time to time, (ii) any employee or officer of any member of the Group and (iii) any advisers, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners, service providers of any member of the Group, who the Board considers, in its sole discretion, have contributed and will contribute to the Group	(i) The full-time employees, executives or officers (including Directors) of the Company, (ii) the full-time employees of any of the subsidiaries and/or PRC Operational Entities, (iii) any suppliers, customers, consultants, agents, advisers that have contributed or will contribute to the Group and (iv) any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Group

REPORT OF DIRECTORS

Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
3. Maximum number of Shares	<p>As at 31 December 2017 and the Latest Practicable Date, options to subscribe for an aggregate of 577,989 Shares and 577,789 Shares were outstanding respectively, representing approximately 0.42% and 0.42% of the issued share capital of the Company as at 31 December 2017 and the Latest Practicable Date, respectively</p> <p>No further option could be granted under the Pre-IPO Share Option Scheme</p>	<p>As at 31 December 2017 and the Latest Practicable Date, the maximum number of Shares available for issue in respect of which options may be granted or have been granted but have not been exercised under the Post-IPO Share Option Scheme was 15,257,591 Shares and 15,102,591 Shares respectively, representing approximately 11.04% and 10.93% of the issued share capital of the Company as at 31 December 2017 and the Latest Practicable Date, respectively</p> <p>The maximum number of the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other scheme of the Company must not in aggregate exceed 30% of the total number of Shares in issue from time to time</p>
4. Maximum entitlement of each participant	<p>The total number of Shares subject to the Pre-IPO Share Option Scheme shall not exceed 6% of the aggregate of the Shares in issue on 31 October 2012, the date of adoption of the Pre-IPO Share Option Scheme</p>	<p>1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant</p>

REPORT OF DIRECTORS

Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
5. Option year	Except as provided otherwise and subject to the terms and conditions upon which such option was granted, any option granted will vest over a total vesting year of four years commencing from the date of offer in equal proportions of 25% each on the expiry of the first, second, third and fourth anniversary of the Offer Date, respectively; provided that the year within which an option must be exercised shall not be more than ten years commencing on the date of grant	<p>The option year is determined by the Board provided that it is no later than the tenth anniversary of the date of grant. There is no minimum year for which an option must be held before it can be exercised</p> <p>The Board may in its absolute discretion specify such conditions as to performance criteria to be satisfied by the participant and/or the Company and/or the Group which must be satisfied before an option can be exercised</p>
6. Acceptance of offer	Options granted must be accepted within 28 days of the date of grant, upon payment of HK\$1.0 per grant	Options granted must be accepted within the date as stated in the notice of grant, upon payment of HK\$1.0 per grant
7. Exercise price	Exercise price shall be the par value of the Shares as amended as a result of any subdivision, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As at the date of the grant, the par value of the Shares was US\$0.0001	Exercise price shall be not less than the highest of (i) the nominal value of an ordinary share on the date of grant, (ii) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options and (iii) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the grant
8. Remaining life of the scheme	It shall be valid and effective for ten years commencing on 31 October 2012	It shall be valid and effective for ten years commencing on 3 October 2013

REPORT OF DIRECTORS

THE RESTRICTED SHARE UNIT SCHEME

The Company has approved and adopted the RSU Scheme by a resolution of its Shareholders on 1 September 2013 and a resolution of the Board on 1 September 2013. The Company has appointed Computershare Hong Kong Trustees Limited as professional trustee to assist the administration and vesting of the RSUs. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares.

The RSUs do not carry any right to vote at general meetings of the Company. No RSU grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an award of RSUs ("Award") pursuant to the RSU Scheme. Notwithstanding the foregoing, if so specified by the Board in its entire discretion, the RSU may include rights to cash or non-cash income, scrip dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any shares underlying the Award.

The Company has offered to grant RSUs to subscribe for 4,260,000 Shares to Directors and employees of the Group on 13 September 2016.

REPORT OF DIRECTORS

Set out below are details of the outstanding RSUs granted to the Directors and employees of the Group under the RSU Scheme as at 31 December 2017:

Name of grantee	Number and class of Shares under the RSUs granted	Date of offer	Vesting year	Outstanding as at 1 January 2017	Vested during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2017
WANG Dongfeng	500,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	375,000 Ordinary Shares	250,000 Ordinary Shares	—	—	125,000 Ordinary Shares
LIANG Na	820,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	615,000 Ordinary Shares	410,000 Ordinary Shares	—	—	205,000 Ordinary Shares
ZHANG Qiang	100,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	7,500 Ordinary Shares	50,000 Ordinary Shares	—	—	25,000 Ordinary Shares
POON Philana Wai Yin	100,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	7,500 Ordinary Shares	50,000 Ordinary Shares	—	—	25,000 Ordinary Shares
ZHAO Cong Richard	100,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	7,500 Ordinary Shares	50,000 Ordinary Shares	—	—	25,000 Ordinary Shares
HOW Sze Ming	100,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	7,500 Ordinary Shares	50,000 Ordinary Shares	—	—	25,000 Ordinary Shares
Sub-Total	1,720,000 Ordinary Shares	—	—	1,290,000 Ordinary Shares	860,000 Ordinary Shares	—	—	430,000 Ordinary Shares
17 employees	2,540,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	1,905,000 Ordinary Shares	1,150,000 Ordinary Shares	285,000 Ordinary Shares	—	470,000 Ordinary Shares
Total	4,260,000 Ordinary Shares	—	—	3,195,000 Ordinary Shares	2,010,000 Ordinary Shares	285,000 Ordinary Shares	—	900,000 Ordinary Shares

REPORT OF DIRECTORS

SUMMARY OF THE RSU SCHEME

- 1. Purpose** To reward the participants of the RSU Scheme for their contribution to the success of the Group, and to provide incentives to them to further contribute to the Group
- 2. Participants** (i) full-time employees or officers (including Executive, Non-executive and Independent Non-executive Directors), (ii) full-time employees of any of the subsidiaries and the PRC Operational Entities, (iii) any suppliers, customers, consultants, agents, advisers that have contributed or will contribute to the Company, any of its subsidiaries and/or the PRC Operational Entities, and (iv) any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Company, any of its subsidiaries and/or the PRC Operational Entities
- 3. Maximum number of Shares** As at 31 December 2017 and the Latest Practicable Date, the maximum number of Shares underlying the RSUs available for grant was 7,180,494 Shares and 7,180,494 Shares respectively, representing approximately 5.20% and 5.20% of the issued share capital of the Company as at 31 December 2017 and the Latest Practicable Date, respectively

The maximum number of Shares underlying the RSUs which may be granted must not in aggregate exceed 11,290,494 Shares, representing 9% of the number of Shares in issue on the Listing Date (the “RSU Scheme Limit”). The RSU Scheme Limit may be refreshed from time to time subject to prior Shareholders’ approval, but must not exceed 9% of the number of Shares in issue as at the new approval date
- 4. Acceptance of Award** A grant shall be deemed to have been accepted when in respect of a board lot or an integral multiple thereof and to have taken effect when notice is given to the Company by the grantee in accordance with the instructions from the Company pursuant to the RSU management agreement, being an agreement entered into between the Company and the relevant service provider or any other service agreement to facilitate the acceptance and vesting of RSUs to the grantees from time to time
- 5. Vesting** Subject to the terms of the RSU Scheme and the specific terms and conditions applicable to each Award, the RSUs granted in an Award shall be subject to a vesting period, to the satisfaction of performance and/or other conditions to be determined by the Board. If such conditions are not satisfied, the RSU shall be cancelled automatically on the date on which such conditions are not satisfied, as determined by the Board in its absolute discretion
- 6. Trustee** The Board has appointed Computershare Hong Kong Trustee Limited on 2 July 2014 as professional trustee to assist with the administration and vesting of RSUs pursuant to the RSU Scheme
- 7. Remaining life of the scheme** It shall be valid and effective till 31 August 2023.

REPORT OF DIRECTORS

For further details of the RSU Scheme, please refer to the section headed “Statutory and General Information” in Appendix IV to the Prospectus and note 25c to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2017, the percentage of the aggregate revenue attributable to the Group’s largest game and five largest games accounted for approximately 23% and 32% of the Group’s total revenue, and accounted for approximately 43% and 61% of the Group’s Game Business segment revenue, respectively.

During the year ended 31 December 2017, the percentage of the aggregate revenue attributable to the Group’s largest publishing partner and five largest publishing partners accounted for approximately 12% and 21% of the Group’s total revenue, and accounted for approximately 22% and 39% of the Group’s Game Business segment revenue, respectively.

During the year ended 31 December 2017, the percentage of the aggregate revenue attributable to the Group’s largest customer and five largest customers of Fintech Business accounted for approximately 28% and 31% of the Group’s total revenue, and accounted for approximately 60% and 67% of the Group’s Fintech Business segment revenue, respectively.

During the year ended 31 December 2017, the percentage of the aggregate purchases attributable to the Group’s largest supplier and five largest suppliers accounted for approximately 12% and 45% of the Group’s cost of revenue, respectively.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any Shareholders (which to the best knowledge of the Directors owned more than 5% of the Company’s issued share capital) had a material interest in the Group’s five largest game licensors, publishing partners and suppliers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

At the Company’s annual general meeting held on 23 May 2017, the Shareholders granted a share buy-back mandate to the Board to buy-back Shares (which should not exceed 10% of the issued share capital of the Company as at 23 May 2017) from time to time as the Board thinks fit until the earliest of (i) the conclusion of the next annual general meeting of the Company, (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles to be held, or (iii) the revocation or variation of the authority given under the resolution by an ordinary resolution of the Shareholders in general meeting.

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries, has purchased, sold or redeemed any of the Company’s listed securities.

REPORT OF DIRECTORS

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2017

There was no material subsequent event during the period from 31 December 2017 to the approval date of the Financial Statements by the Board of Directors on 27 March 2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group is committed to the long-term sustainability of its business and the communities in which it conducts business. It has adopted a proactive approach to environmental, social and governance responsibility. The Environmental, Social and Governance Report is set out on pages 201 to 220 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular, those have significant impact on the Group, such as The Interim Measures for the Administration of Online Games (Amended in 2017), the Copyright Law of the PRC (2010 Amendment) and Guidelines for the Supervision and Administration of Network Microcredit Companies of Jiangxi Province (for Trial Implementation). The Audit and Compliance Committee is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of the relevant employees and the relevant operation units from time to time.

As far as the Company is aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company during the year ended 31 December 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. Save as disclosed in the corporate governance report under this annual report in relation to the deviations from code provision A.2.1 of the CG Code, the Company has complied with the code provisions in the CG Code throughout the year ended 31 December 2017.

PERMITTED INDEMNITY PROVISION

The Articles provide that every Director shall be indemnified out of the assets and profits of the Company against all liability and loss suffered by him as such Director in any action, suit or proceeding, whether civil or criminal, administrative or investigative, in which judgment is given in his favour, or in which he is acquitted.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the directors of any company of the Group.

REPORT OF DIRECTORS

EQUITY-LINKED AGREEMENTS

Save for the share option schemes and the Restricted Share Unit Scheme as disclosed in this annual report, no equity-linked agreement was entered into during the year ended 31 December 2017 or subsisted at the end of the year of 2017.

AUDITOR

The Financial Statements of the Group for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers, certified public accountants.

PricewaterhouseCoopers shall retire and being eligible, offer itself for re-appointment, and a resolution to this effect shall be proposed at the Annual General Meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote at the Annual General Meeting to be held on Friday, 25 May 2018. All transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, 18 May 2018.

By order of the Board

WANG Dongfeng

Chairman

Hong Kong, 27 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the year of 2017, the Group recorded a positive EBITDA of approximately RMB105.3 million thanks to the expansion of the Group's principal business into fintech, effective cost control measures and investment gains. This is a milestone in the Group's history as it marks the turnaround of the Group's financial performance and proves the effectiveness of the Group's strategy.

As at 31 December 2017, the Group's principal business has expanded to fintech. We have started internet micro-credit business since January 2017. This business is primarily dedicated to providing individuals and consumers who were not served by traditional financial institutions in the PRC with practical and flexible short-term financing solutions. The Group's internet micro-credit business generates substantially all of its income through interests accrued on the loans extended to its customers. We provide two types of loans, namely, guaranteed loans and collateralised loans to our customers. We had served 1,428,941 cumulative borrowers as at 31 December 2017, and originated RMB7.5 billion of loans during the year 2017.

In the Group's fintech ecosystem, we also provide online wealth management service to individual investors through the operations of websites and mobile phone applications. This business generates substantially all of its income through service fees, which is calculated as a percentage of the amount of assets matched on the platform. It provides technology driven and customer oriented asset matching strategy to its investors. It had over 8.8 million registered users and grown its cumulative transaction volume to over RMB96.7 billion as at 27 March 2018.

The Group's game business continues to focus on the execution of the overseas market strategy. In the year of 2017, "Liberators" has generated a total revenue of over RMB78.7 million, representing a 185% growth from the revenue generated in 2016. Besides, the Group has launched a casual mobile game, "Clothes Forever", allowing players to mix and match various outfits to redefine the concept of fashion in a virtual world, and an exciting mobile SLG (simulation game) "Battle Space". These two new mobile games are developed and operated by the team of "Liberators" and target at international markets as "Liberators" did.

On 13 November 2017, the Group announced a positive profit alert, expecting a net profit ranging from approximately RMB56.0 million to RMB76.0 million for the six months ending 31 December 2017. As it turned out, the Group's net profit for the six months ended 31 December 2017 reached RMB86.4 million, which outperformed the expected upper end of the range by RMB10.4 million. This outperformance is mainly due to the gains from an additional investment disposal and fintech business performance beating expectation in December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Game Business

The following table sets forth certain operating statistics relating to the game business of the Group as in the years indicated:

	Year Ended 31 December	
	2017	2016
Game		
Average MPUs (in thousands) ^{(1) (2) (3)}	75	795
Monthly ARPPU (RMB) ⁽³⁾	203	38

Notes:

- (1) The numbers eliminate the duplication in paying users of self-developed games published on the Group's own platforms.
 - (2) The numbers do not include the MPUs of negligible console mobile games.
 - (3) The numbers differ from those shown in 2016 annual report of the Company because the MPUs in 2016 annual report of the Company did not eliminate the duplication in paying users of self-developed games published on the Group's own platforms.
- **MPU.** The MPUs for the game segment decreased to approximately 75 thousand in 2017 from approximately 795 thousand in 2016. This decrease was primarily due to several key games, such as “Boonie Bears (熊出沒)” series, “Storm World (風暴大陸)”, “Sword Immortal (劍仙緣)”, “Soul Guardian: Mobile (凡人修真手遊)” and “True King (真王)”, having entered into the mature stage of their lifecycles resulting in fewer paying users in these games.
- **ARPPU.** Monthly ARPPU level of game segment increased to approximately RMB203 for the year 2017 as compared with RMB38 for the year ended 2016. This increase was primarily attributable to the mix effect of game portfolio. Specifically, “Liberators”, which enjoyed a higher ARPPU level, had increased its weight in terms of revenue and MPU in the Group's game product portfolio as a whole, while “Boonie Bears (熊出沒)” series games, which enjoyed a lower ARPPU level had decreased their weight in terms of revenue and MPU in the Group's game portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS

Fintech Business

The fintech business of the Group consists of internet micro-credit business and online wealth management business.

The following tables set forth certain operating statistics relating to the Group's internet micro-credit business:

	Year Ended 31 December 2017
Average balance of outstanding performing loans (RMB in million) ⁽¹⁾	256
Average size of our loans (in RMB) ⁽²⁾	1,641
	As at 31 December 2017
Cumulative number of borrowers ⁽³⁾	1,428,941

Notes:

- (1) Calculated as the average balance of the principal amount of our outstanding performing loans at the end of each month for the period.
- (2) Calculated as the total amount of loans divided by the total number of loans originated for the period.
- (3) Number of cumulative borrowers in our internet micro-credit business since inception.

The Group provides two types of loans through the internet micro-credit service, namely, guaranteed loans and collateralised loans, to its customers in the PRC. The Group considers a number of factors in determining the applicable interest rate of a loan, including (i) the relevant customer's background and credit history, (ii) whether the loan is secured or guaranteed, (iii) the value of the collaterals, if any, and (iv) the use and term of the loan.

MANAGEMENT DISCUSSION AND ANALYSIS

The following tables set forth the key operating matrix for the period indicated or as at the date indicated relating to the Group's online wealth management business:

	Year Ended 31 December 2017
Average investing users acquisition cost (in RMB) ⁽¹⁾	164
Average size of investments (in RMB) ⁽²⁾	12,705
	As at December 31 2017
Cumulative amount of investments (RMB in million) ⁽³⁾	80,419
Registered users	8,049,755

Notes:

- (1) Calculated as the average acquisition cost per investing user of online wealth management business for the period.
- (2) The total investment amount from investing users of online wealth management business divided by the total number of investments for the period.
- (3) Cumulative amount of investment from investors of "Jianlicai" brand in online wealth management business since its inception in May 2015.

The Group provides online wealth management services through the operations of websites and mobile phone applications. By providing efficient and technology driven asset matching services backed up with safe assets to investors, the Group charges service fees from the asset providers. The average annualised return on investment for investing users of our online wealth management business is generally in the range of 5-7%.

User profile of our online wealth management business - The investing individuals of our wealth management business are mainly adults of the age ranging from 25 to 35, and the number of male users and the number of female users are generally even. A majority of our users are white collars and married with kid(s). Users from tier one or tier two cities in the PRC comprise a majority of our users.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the Group's income statement for the year ended 31 December 2017 as compared to the year ended 31 December 2016:

	Year Ended 31 December		Change %
	2017 RMB' 000	2016 RMB' 000	
Revenue	346,466	361,564	-4.2%
Cost of revenue	(124,185)	(289,015)	-57.0%
Gross profit	222,281	72,549	206.4%
Selling and marketing expenses	(77,274)	(88,820)	-13.0%
Administrative expenses	(99,439)	(121,983)	-18.5%
Research and development expenses	(49,425)	(96,476)	-48.8%
Other income	7,701	11,787	-34.7%
Other losses	(9,394)	(14,246)	-34.1%
Finance income-net	5,384	8,701	-38.1%
Gain on dilution of investments accounted for using the equity method	—	3,907	-100.0%
Gain on disposal of investment in an associate	62,576	—	NM
Gain on disposal of available-for-sale financial assets	11,500	—	NM
Share of income of investments accounted for using the equity method	10,850	2,047	430.0%
Impairment of investment in associates	—	(22,219)	-100.0%
Impairment of available-for-sale financial assets	(6,540)	(108,063)	-93.9%
Impairment loss on intangible assets and property and equipment	(5,077)	(30,198)	-83.2%
Profit/(loss) before income tax	73,143	(383,014)	-119.1%
Income tax expense	(4,495)	(13,478)	-66.6%
Profit/(loss) for the year	68,648	(396,492)	-117.3%

Note: NM means not meaningful.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue. Revenue decreased by approximately 4.2% to RMB346.5 million for the year ended 31 December 2017 from RMB361.6 million for the year ended 31 December 2016. The following table sets forth the revenue of the Group by segment for the years ended 31 December 2017 and 2016:

	Year Ended 31 December			
	2017		2016	
	(RMB' 000)	(% of Total Revenue)	(RMB' 000)	(% of Total Revenue)
Revenue by Segment				
– Game Business	183,447	53.0	361,564	100.0
– Fintech Business	163,019	47.0	—	—
Total Revenue	346,466	100.0	361,564	100.0

- Revenue generated from the Group's game segment decreased by approximately 49.3% to RMB183.4 million for the year ended 31 December 2017 from RMB361.6 million for the year ended 31 December 2016. This decrease was primarily due to the fact that some of the Group's key games have entered into the mature stage of their lifecycles and generated less revenue than the previous year, which was partially offset by the increase in revenue generated from the Group's overseas webgame "Liberators".
- Revenue generated from the Group's fintech segment was approximately RMB163.0 million for the year ended 31 December 2017 (2016: Nil). This revenue was generated from the Group's fintech business including internet micro-credit business and online wealth management business.

Adjusted EBITDA. Adjusted EBITDA increased to RMB58.6 million for the year ended 31 December 2017 from negative adjusted EBITDA of RMB207.8 million for the year ended 31 December 2016. The following table sets forth the adjusted EBITDA of the Group by segment for the years ended 31 December 2017 and 2016:

	Year Ended 31 December		
	2017	2016	Change
	RMB' 000	RMB' 000	%
Adjusted EBITDA by Segment			
Game Business	15,840	(213,767)	-107.4%
Fintech Business	31,871	—	NM

Note: The difference between the sum of adjusted EBITDA of the game and fintech segments above and the total adjusted EBITDA of the Group is from the gain on dilution of investments accounted for using the equity method and share of income of investments accounted for using the equity method.

MANAGEMENT DISCUSSION AND ANALYSIS

- Adjusted EBITDA in respect of the Group's game segment increased to RMB15.8 million for the year ended 31 December 2017 from negative adjusted EBITDA of RMB213.8 million for the year ended 31 December 2016. This increase was mainly due to (i) optimised game portfolio resulting in higher contribution from games with higher gross profit, and (ii) effective cost management in selling and marketing expenses, administrative expenses and research and development expenses in 2017.
- Adjusted EBITDA in respect of the Group's fintech segment was RMB31.9 million for the year ended 31 December 2017 (2016: Nil). This adjusted EBITDA was generated from the Group's fintech business including internet micro-credit business and online wealth management business.

Cost of revenue. Cost of revenue decreased by approximately 57.0% to RMB124.2 million for the year ended 31 December 2017 from RMB289.0 million for the year ended 31 December 2016. This decrease was mainly attributable to lower content costs and revenue sharing costs of self-developed mobile games and outsourcing expenses of mature games in line with the revenue decrease of such games. The decrease in cost of revenue was partially offset by the incremental cost of revenue, mainly payment service fees, of the fintech business. For the year ended 31 December 2017, the percentage of cost of revenue to total revenue decreased to 35.8% (2016: 79.9%).

Selling and marketing expenses. Selling and marketing expenses decreased by approximately 13.0% to RMB77.3 million for the year ended 31 December 2017 from RMB88.8 million for the year ended 31 December 2016. This decrease was mainly attributable to the decrease in the promotion and advertising expenses of the Group's key game "Liberators", which was partially offset by the incremental selling and marketing expenses incurred by fintech business.

Administrative expenses. Administrative expenses decreased by approximately 18.5% to RMB99.4 million for the year ended 31 December 2017 from RMB122.0 million for the year ended 31 December 2016. This decrease was mainly due to the fact that there were one-off losses relating to the write-down of prepayments and receivables of certain PRC hard-core games in 2016, while there was no such losses in 2017. This decrease was partially offset by professional service fees in relation to the acquisition of a 55% equity interest in JLC (Cayman).

Research and development ("R&D") expenses. R&D expenses decreased by approximately 48.8% to RMB49.4 million for the year ended 31 December 2017 from RMB96.5 million for the year ended 31 December 2016. This decrease was primarily due to the ongoing effort of the Group to optimise its R&D capability, as well as the reduction in the R&D expenses of the Group's game business, which was partially offset by the incremental R&D expenses of the fintech business.

Other income. Other income decreased by approximately 34.7% to RMB7.7 million for the year ended 31 December 2017 from RMB11.8 million for the year ended 31 December 2016. This decrease was mainly due to a lower interest income resulting from a lower average balance of cash and cash equivalents in 2017 compared to the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other losses. Other losses decreased by approximately 34.1% to RMB9.4 million for the year ended 31 December 2017 from RMB14.2 million for the year ended 31 December 2016. The other losses in 2017 included (i) a RMB5.9 million fair value loss as a result of the change in the value of financial assets at fair value through profit or loss, (ii) a RMB1.2 million loss related to the disposal of property and equipment, and (iii) a RMB2.3 million exchange loss.

Finance income-net. Finance income-net primarily consists of the interest income from short-term bank deposits. The finance income-net of the Group decreased by approximately 38.1% to RMB5.4 million for the year ended 31 December 2017 from RMB8.7 million for the year ended 31 December 2016. This decrease was mainly due to a lower average balance of short-term bank deposits of the Group in 2017 compared to the previous year.

Gain on disposal of investment in an associate. Gain on disposal of investment in an associate for the year ended 31 December 2017 was RMB62.6 million (2016: Nil). The gain was attributable to the disposal of a 20% equity interest in Beijing Hongruan, a then associated company of the Group, in 2017. For details of the disposal, please refer to the Company's announcements dated 24 May 2017 and 20 November 2017 and the section headed "Management Discussion and Analysis – Material Acquisition and Disposal – Disposal of a 20% equity interest in Beijing Hongruan" in this annual report.

Gain on disposal of available-for-sale financial assets. Gain on disposal of available-for-sale financial assets for the year ended 31 December 2017 was RMB11.5 million (2016: Nil). The gain was mainly attributable to the disposal of a 10% equity interest in one of the Group's investee companies in 2017.

Share of income of investments accounted for using the equity method. Share of income of investments accounted for using the equity method for the year ended 31 December 2017 was RMB10.9 million, as compared to an income of RMB2.0 million for the year ended 31 December 2016. This gain reflected the improved financial and operational performance of the Group's investee companies. Some of the Group's investee companies had recorded higher profit before tax compared to the previous year.

Impairment of available-for-sale financial assets. Impairment of available-for-sale financial assets for the year ended 31 December 2017 was RMB6.5 million, which represented the provision for impairment loss in respect of some of our angel investments after reviewing the Group's investment portfolio. The reviews involved performing assessment on product-potential analysis of their key products.

Impairment loss on intangible assets and property and equipment. Impairment loss on intangible assets and property and equipment was RMB5.1 million for the year ended 31 December 2017 compared to RMB30.2 million for the year ended 31 December 2016. The impairment loss in 2017 was mainly the intangible assets impairment of the Group's game business, whereas the impairment loss in 2016 was primarily caused by the expected write-down of PRC hard-core game intellectual property licence fees resulting from a strategic repositioning plan.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expense. Income tax expense decreased by approximately 66.6% to RMB4.5 million for the year ended 31 December 2017 from RMB13.5 million for the year ended 31 December 2016. The income tax expense consisted of the income tax expense incurred by the disposal of a 20% equity interest in Beijing Hongruan, a then associated company of the Group, and the income tax expense related to the Group's fintech business. In comparison, the higher income tax expense in 2016 primarily reflected the write-offs of certain deferred tax assets previously recognised which the Board considered unlikely to be utilised in the future.

Profit/(loss) for the year. As a result of the foregoing, the profit for the year ended 31 December 2017 was RMB68.6 million, as compared to a loss of RMB396.5 million for the year ended 31 December 2016. The improved profitability for the year was primarily due to increase in revenue and gross profit margin relating to our fintech business, improvement of efficiency in selling and marketing, administrative and R&D expenses and certain investment gains resulted from the disposal of equity interest in Beijing Hongruan. The Group will continue to manage the operating costs and expenses at a reasonable level and optimise the Group's profitability.

NON-IFRSs MEASURES-EBITDA AND ADJUSTED EBITDA

To supplement the consolidated results of the Group which are prepared in accordance with IFRSs, certain non-IFRS measures, including EBITDA and adjusted EBITDA, have been presented. These unaudited non-IFRS financial measures should be considered in addition to, and not as a substitute for, the measures of the Group's financial performance which have been prepared in accordance with IFRSs. The Group's management believes that these non-IFRSs financial measures provide investors with useful supplementary information to assess the performance of its core operations by excluding certain non-cash and non-recurring items. The EBITDA and adjusted EBITDA are unaudited figures.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the reconciliation of the Group's non-IFRS financial measures for the years ended 31 December 2017 and 2016, to the nearest measures prepared in accordance with IFRSs:

	Year Ended 31 December	
	2017	2016
	(RMB' 000)	(RMB' 000)
Profit/(loss) for the year	68,648	(396,492)
Add:		
Depreciation and amortisation	40,473	34,556
Net interest income	(8,297)	(15,700)
Income tax expense	4,495	13,478
EBITDA (unaudited)	105,319	(364,158)
Add:		
Share-based compensation	14,889	16,272
Changes in the value of financial assets at fair value through profit or loss	5,889	9,791
Gain on disposal of investment in an associate	(62,576)	—
Gain on disposal of available-for-sale financial assets	(11,500)	—
Impairment of investment in associates	—	22,219
Impairment of available-for-sale financial assets	6,540	108,063
Adjusted EBITDA (unaudited)	58,561	(207,813)

FINANCIAL POSITION

As at 31 December 2017, the total equity of the Group amounted to RMB1,181.4 million, compared to RMB1,058.1 million as at 31 December 2016. This increase was mainly due to the decrease in accumulated losses as discussed in the paragraphs headed "Profit/(loss) for the year".

The Group's net current assets amounted to RMB796.9 million as at 31 December 2017, compared to RMB665.1 million as at 31 December 2016. This increase was primarily due to (i) increase in working capital of the Group's fintech business and (ii) the proceeds and increase in receivables in relation to the consideration for the disposal of a 20% equity interest in Beijing Hongruan.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

	As at 31 December	
	2017	2016
	RMB' 000	RMB' 000
Cash at bank and on hand	588,299	264,123
Cash at other financial institutions	66,616	3,863
Short-term deposits	34,650	448,997
Total	689,565	716,983

The total cash, cash equivalent and short-term deposits of the Group amounted to RMB689.6 million as at 31 December 2017, compared to RMB717.0 million as at 31 December 2016. This balance remained relatively stable as the Group reinvested its financial resources into the operations of fintech segment in order to grow its fintech business.

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the costs of fundings, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in Renminbi, followed by USD.

As at 31 December 2017, the Group's gearing ratio (calculated by bank borrowing divided by total assets) was 0% (as at 31 December 2016: 0%), which means the Group did not have any bank borrowing balance as at 31 December 2017. The borrowing requirements of the Group are not subject to seasonality.

MATERIAL ACQUISITION AND DISPOSAL

Save as disclosed below, during the year ended 31 December 2017, the Group did not perform any material acquisition or disposal of subsidiaries and associated companies.

Acquisition of a 55% equity interest in JLC (Cayman)

On 25 June 2017, the Company announced the acquisition of a 55% equity interest of JLC (Cayman) (the "Acquisition") from Yinker in consideration of the cancellation of the convertible bonds issued by Yinker to the Group in the principal amount of RMB300.0 million (approximately USD45.2 million) (the "Convertible Bonds").

The Company restructured the Convertible Bonds transaction in such a way so that the Company could (i) gain operational and financial control over certain subsidiaries of Yinker in order to further and directly expand into the internet finance industry, (ii) consolidate such subsidiaries' financial results into the Group, and (iii) create synergies with the Group's existing internet finance business. The aforementioned benefits would not have as meaningful an impact should the Company have converted the Convertible Bonds into minority shares of Yinker.

MANAGEMENT DISCUSSION AND ANALYSIS

Following the completion of the Acquisition on 16 August 2017, JLC (Cayman) and its subsidiaries including the JLC PRC Operational Entities, which by virtue of the JLC Contractual Arrangements, have been accounted for as subsidiaries of JLC (Cayman), became subsidiaries of the Company and their financial results have been consolidated in the Company's financial statements.

The details of the contractual arrangements are set out in the Company's announcement dated 25 June 2017 and the section headed "Report of Directors – Contractual Arrangements – B. JLC Contractual Arrangements" in this annual report. For details of the transactions, please refer to the announcements of the Company dated (i) 3 August 2016 and 27 September 2016 in respect of, among other things, the Company's subscription of the Convertible Bonds issued by Yinker to the Group pursuant to an investment agreement dated 3 August 2016, and (ii) 28 April 2017, 25 June 2017, 16 August 2017, 1 September 2017 and 16 November 2017 in respect of, among other things, the restructuring of the Convertible Bonds transaction and the Acquisition pursuant to a supplemental agreement dated 25 June 2017 (the "Supplemental Agreement").

As JLC (Cayman) has become a subsidiary of the Company since the completion of the Acquisition on 16 August 2017, its performance in 2017 has been fully discussed in various parts in the section headed "Management Discussion and Analysis – Business Review" of this annual report.

Disposal of a 20% equity interest in Beijing Hongruan

On 24 May 2017, the Company announced the disposal of its 20% equity interest in Beijing Hongruan. Following the completion of this disposal on 15 November 2017, the Company has ceased to hold any interest in Beijing Hongruan, and Beijing Hongruan has ceased to be an associated company of the Company and its financial results are no longer equity accounted for in the consolidated financial statements of the Group.

Please refer to the announcements of the Company dated 24 May 2017 and 20 November 2017 for further details of this disposal.

PROFIT GUARANTEE IN RESPECT OF THE ACQUISITION OF A 55% EQUITY INTEREST IN JLC (CAYMAN)

Pursuant to the Supplemental Agreement in respect of the Acquisition, the investment payment made by the Company was subject to a profit guarantee (the "Profit Guarantee") linked to the audited net income (after adjustment) (the "Adjusted Net Income") of JLC (Cayman) and its subsidiaries (the "Target Group") for the year ended 31 December 2017.

Based on the audited financial results of the Target Group for the year ended 31 December 2017, the Target Group's Adjusted Net Income has exceeded RMB60.0 million and therefore the Profit Guarantee of not less than RMB60.0 million has been fulfilled. For details of the Profit Guarantee, please refer to the section headed "The Restructuring of the Investment Agreement - Profit Guarantee Payment" in the announcement of the Company dated 25 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE RISK

As at 31 December 2017, RMB59.4 million of the financial resources of the Group (2016: RMB345.7 million) were held in deposits denominated in non-RMB currencies. The decrease in the deposits denominated in non-RMB currencies was due to the conversion of a significant amount of the Group's bank deposits from USD into RMB to support the Group's fintech business. The Group will continue to monitor its foreign exchange risk exposure to best preserve the Group's cash value.

CAPITAL EXPENDITURES

	Year Ended 31 December	
	2017 (RMB' 000)	2016 (RMB' 000)
Capital expenditures		
– Purchase of property and equipment	5,807	971
– Purchase of intangible asset	189	9,909
Total	5,996	10,880

Capital expenditures (excluding business combination) comprise the purchase of property and equipment, such as computers and leasehold improvement, and the purchase of intangible assets, such as IP adaptation rights and IP rights of games developed by third-party developers.

Pledge of Asset

As at 31 December 2017, the Group had a pledge of assets of RMB0.8 million (as at 31 December 2016: RMB0.8 million) as restricted cash for corporate credit card deposits.

Contingent Liabilities

As at 31 December 2017, the Group did not have any significant unrecorded contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources

As at 31 December 2017, the Group had 422 full-time employees, the vast majority of whom were based in Guangzhou and Beijing. As the Group expanding its business scope to fintech business, the management has actively made headcount adjustments while monitoring human resources costs. As a result, the Group had a net increase of 23 employees in 2017. The following table sets forth the number of employees by function as at 31 December 2017:

	Number of Employees	% of Total
Research and Development	167	40%
Operation	31	7%
Sales and Marketing	85	20%
General and Administration	139	33%
Total	422	100%

Details of the Group's remuneration policies and training schemes are set out in "Report of Directors – Remuneration Policy and Directors' Remuneration" of this annual report.

Details of share options schemes and restricted share unit scheme are set out in the sections headed "Report of Directors – Pre-IPO Share Option Scheme", "Report of Directors – Post-IPO Share Option Scheme" and "Report of Directors – The Restricted Share Unit Scheme" of this annual report.

POST BALANCE SHEET EVENT

There was no material subsequent event during the period from 31 December 2017 to the approval date of the financial statements of the Company for the year ended 31 December 2017 by the Board of Directors on 27 March 2018.

DIVERSIFICATION PLAN: RISKS AND HURDLES

As Forgame continues its expansion into fintech business, there are certain risks that could adversely affect the Company's operations and financials due to fintech market's immaturity. The major hurdles include (i) new policies or any amendment to current policies in relation to fintech regulation, (ii) main strategic business partners not able to provide sustainable services, (iii) collapse of real estate market or other markets causing our collaterals not able to cover our loan exposures, (iv) new fintech products not recognised by market, (v) departure of key employees, and (vi) increasing competition causing decrease of profit margin because of cost of user acquisition increases or other reasons.

MANAGEMENT DISCUSSION AND ANALYSIS

Meanwhile, in our established game business, the major hurdles include (i) delays of game launches, (ii) games developed not able to meet market expectation at launch, (iii) departure of key employees, and (iv) technical issues that hamper the Group's ability to collect fees and data, and update games, all of which will negatively affect the Group's revenue.

In addition, the Group is exposed to risks such as fluctuation of foreign exchange, impairment charge due to invested companies' underperformance or becoming insolvent, and other unexpected one-off restructuring costs, all of which will negatively impact the Group's net profit.

Since 2014, the Group have made investments in a number of mobile game studios and incubators in China with a remaining value of approximately RMB27.4 million post investment impairment and losses in 2017, out of which approximately RMB12.1 million were classified as "investments in associates".

In 2017, although some of the investments performed better compared to previous years, it is difficult to judge whether these investments could survive the market with increasing competition. Therefore, potential impairments or write-offs may occur.

FUTURE PLANS

In the future, the Group will continue to seek game segment's overseas expansion. The business model of "Liberators" has proven successful, and the Group has developed a sustainable overseas publishing capability based on the considerable player data accumulated. Such capability is expected to be replicable in future games.

On the other hand, the performance of our fintech segment has given confidence to the Group to diversify its business and increase its exposure into broader technology opportunities, such as data analytics and artificial intelligence technology that can enhance the Group's core advantages.

The Group plans to evaluate investment opportunities across various parts of the internet, media, and technology industry with the aim of building an ecosystem that would create synergy to drive growth and profitability.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the code provisions as set out in the CG Code.

Save as disclosed in this Corporate Governance Report in relation to the deviations from code provision A.2.1 of the CG Code, the Directors consider that the Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2017.

A. The Board

1. *Roles and Responsibilities of the Board*

The Board is responsible for the leadership and control of the Group and is responsible for promoting the success of the Group by directing and supervising its affairs. The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference which are published on the websites of the Stock Exchange and the Company.

While specific functions are delegated to Board committees, matters which have a critical bearing on the Group are reserved for decision or consideration by the Board, including:

- approval and monitoring of all major policies of the Group;
- overall strategies and budgets;
- internal control and risk management systems;
- notifiable and connected transactions;
- nomination of directors and company secretary; and
- other significant financial and operational matters.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation. Upon reasonable request, all Directors can seek independent professional advice in appropriate circumstances, at the Company's expense.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

CORPORATE GOVERNANCE REPORT

All Directors have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and have acted in the best interests of the Company and its Shareholders at all times.

2. *Delegation of Management Function*

The day-to-day management, administration and operation of the Group are delegated to the senior management of the Group. The responsibilities delegated by the Board to the senior management team include:

- execution of overall strategies adopted by the Board;
- monitoring of budgets adopted by the Board;
- implementation of internal control and risk management systems; and
- preparation of the annual and interim reports for Board approval.

The delegated functions are periodically reviewed. Authorisation has to be obtained from the Board prior to any significant transactions entered into by the senior management.

3. *Board Composition*

As at 31 December 2017 and the Latest Practicable Date, the Board consisted of seven Directors, three of whom were Executive Directors, one of whom was a Non-executive Director and three of whom were Independent Non-executive Directors. Mr. ZHANG Yang was appointed as an Executive Director with effect from 31 August 2017.

During the year ended 31 December 2017 and up to the Latest Practicable Date, the Board comprised the following Directors:

Executive Directors	Mr. WANG Dongfeng (<i>Chairman and Chief Executive Officer</i>) Ms. LIANG Na (<i>Chief Financial Officer</i>) Mr. ZHANG Yang (<i>Chief Operations Officer</i>) (<i>appointed with effect from 31 August 2017</i>)
Non-executive Director	Mr. ZHANG Qiang
Independent Non-executive Directors	Mr. HOW Sze Ming Ms. POON Philana Wai Yin Mr. ZHAO Cong Richard

Biographies of the Directors are set out on pages 77 to 81 of this annual report.

CORPORATE GOVERNANCE REPORT

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The Independent Non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. The Company maintains on its website and on the Stock Exchange's website an updated list of all Directors identifying their role and function and whether they are Independent Non-executive Directors.

Save as disclosed in the Prospectus and in this annual report, to the best knowledge of the Company, there are no financial, business, family, or other material relationships among members of the Board.

During the year ended 31 December 2017, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board and at least one Independent Non-executive Director possesses appropriate professional qualifications, or accounting or related financial management expertise.

Prior to their respective appointment, each of the Independent Non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received written annual confirmation from each of the Independent Non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence requirements set out in the Listing Rules.

4. *Appointment and re-election of directors*

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

For details of the service contracts of the Directors, please refer to the section headed "Report of Directors – Directors' service contracts" in this annual report.

In accordance with the Articles, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

CORPORATE GOVERNANCE REPORT

5. *Induction and Continuing Development for Directors*

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Directors are continually provided with information related to the developments in the legal and regulatory regime and the business and market environments to facilitate the execution of their responsibilities. Continuing briefing and professional development for Directors were arranged by the Group and its legal advisers.

For the year ended 31 December 2017, Mr. WANG Dongfeng, Ms. LIANG Na, Mr. ZHANG Yang, Mr. ZHANG Qiang, Mr. HOW Sze Ming and Mr. ZHAO Cong Richard have attended training sessions provided by external legal professionals relating to the regulation on fintech industry in Hong Kong and continuing obligations of listed companies and its directors. Ms. POON Philana Wai Yin has attended training sessions arranged by KPMG.

On top of the above-mentioned trainings, members of the senior management have also attended several presentations relating to new regulations and compliance of listed companies.

6. *Directors liability insurance*

The Company has always been in strict compliance with the principles and requirements of the Listing Rules. As at 31 December 2017, the Company was not involved in any material litigation liable by any Director. Each Director has the necessary qualification and experience required for performing his duty. The Company estimates that in the reasonably foreseeable future, there is little risk that there would be any material event for which any Director shall take significant responsibility. Notwithstanding the above, the Company has arranged for appropriate directors' and officers' liability insurance in respect of legal action against the Directors.

CORPORATE GOVERNANCE REPORT

7. Board Meetings and General Meetings

Number of Meetings and Directors' Attendance

Code provision A.1.1 of the CG Code prescribes that at least four regular Board meetings should be held each year at approximately quarterly intervals with active participation of a majority of Directors, either in person or through electronic means of communication.

The Board held four regular Board meetings during the year ended 31 December 2017 for discussing the Group's affairs, reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Group. In total, the Board held eight Board meetings during the year ended 31 December 2017.

The attendance records of each Director at the Board meetings and general meeting (whether in person or by means of electronic communication) held during the year ended 31 December 2017 are set out below:

Name of Director	Board Meetings	General meeting
Mr. WANG Dongfeng (<i>Chairman and Chief Executive Officer</i>)	8/8	1/1
Ms. LIANG Na (<i>Chief Financial Officer</i>)	8/8	1/1
Mr. ZHANG Yang (<i>Chief Operations Officer</i>) (<i>appointed with effect from 31 August 2017</i>)	2/2	0/0
Mr. ZHANG Qiang	8/8	0/1
Mr. HOW Sze Ming	8/8	1/1
Ms. POON Philana Wai Yin	8/8	1/1
Mr. ZHAO Cong Richard	7/8	1/1

Practices and Conduct of Meetings

The annual meeting schedule and draft agendas of each meeting are made available to Directors in advance. Arrangements are also in place to ensure Directors are given an opportunity to include matters in the agenda.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Group and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

Members of the senior management attend all regular Board meetings and where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Group.

CORPORATE GOVERNANCE REPORT

The company secretary of the Company is responsible for taking and keeping minutes of all Board meetings and committee meetings, which record sufficient details of the matters considered by the Directors and decisions made, including any proposal raised by the Directors or dissenting views expressed. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

The Articles contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

B. Chairman and Chief Executive

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. WANG Dongfeng serves as the Chairman of the Board and Chief Executive Officer of the Company. In view of the everchanging business environment in which the Group operates and the fact that the Company was only listed around the end of 2013, the Chairman and Chief Executive Officer must be proficient in IT knowledge and be sensitive to fast and rapid market changes, including changes in users' preferences, in order to promote the different businesses of the Group. The Board thus considers that a separation of the role of the Chairman and Chief Executive Officer is premature and may create unnecessary costs for the daily operations of the Group. Further, the Board believes that the current structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. Besides, all major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team.

The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to monitor and review the Company's current structure and to make necessary changes at an appropriate time.

C. Board Committees

The Board has established three committees, namely, the Remuneration Committee, the Audit and Compliance Committee and the Nomination Committee, for overseeing particular aspects of the Group's affairs. All of these three committees of the Company are established with defined written terms of reference.

The majority of the members of the Remuneration Committee, the Audit and Compliance Committee and the Nomination Committee are Independent Non-executive Directors.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

CORPORATE GOVERNANCE REPORT

1. Remuneration Committee

We have established the Remuneration Committee with written terms of reference in compliance with paragraph B.1 of the CG Code. During the year ended 31 December 2017, the Remuneration Committee comprised three members, of whom two were Independent Non-executive Directors and one was Non-executive Director:

Mr. ZHAO Cong Richard (*Chairman*)

Mr. HOW Sze Ming

Mr. ZHANG Qiang

The primary roles and functions of the Remuneration Committee include, but not limited to: (i) making recommendations to the Directors on the remuneration policy of the Group and structure of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration, (ii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives and ensuring that it is consistent with contractual terms and are reasonable and appropriate, and (iii) determining the terms of the remuneration package of the Directors and senior management with reference to their time commitment and responsibilities, employment condition in the Group, and comparable companies.

The Remuneration Committee held two meetings during the year ended 31 December 2017 to, inter alia, (i) review the remuneration policy and structure, (ii) assess performance of the Executive Directors and approve the terms of the service contract, (iii) make recommendations to the Board on determining the annual remuneration packages of the Directors and the senior management, (iv) consider the remuneration and the terms of the service contract of the new chief operations officer of the Company and Executive Director, and (v) deal with other matters related to the foregoing.

The attendance records of the Remuneration Committee held during the year ended 31 December 2017 are set out below:

Committee members	Meeting attended/Total
Mr. ZHAO Cong Richard (<i>Chairman</i>)	2/2
Mr. ZHANG Qiang	2/2
Mr. HOW Sze Ming	2/2

Please refer to note 37 to the Financial Statements for the remuneration of the senior management by band.

CORPORATE GOVERNANCE REPORT

2. *Audit and Compliance Committee*

We have established the Audit and Compliance Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 as well as paragraph D.3 of the CG Code. During the year ended 31 December 2017, the Audit and Compliance Committee comprised three non-executive members, of whom two were Independent Non-executive Directors and one was Non-executive Director:

Mr. HOW Sze Ming (*Chairman*)

Ms. POON Philana Wai Yin

Mr. ZHANG Qiang

The chairman of the Audit and Compliance Committee, Mr. HOW Sze Ming, holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The primary roles and functions of the Audit and Compliance Committee include, but not limited to:

(i) reviewing and monitoring the relationship of the external auditors and the Group, particularly the independence, objectivity and effectiveness of the external auditor, (ii) providing an independent view of the effectiveness of the financial reporting process and risk management and internal control systems of the Group, (iii) overseeing the audit process and performing other duties and responsibilities as assigned by the Board, (iv) developing, reviewing and monitoring the policies and practices on corporate governance, compliance with legal and regulatory requirements and requirements under the Listing Rules, in particular, the functions set out in the code provision D.3.1 of the CG Code, (v) reviewing the financial information of the Group and ensuring compliance with accounting standards and reviewing significant adjustments resulting from audit, and (vi) developing, reviewing and monitoring the code of conduct applicable to the employees of the Group and the Directors.

The Audit and Compliance Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to risk management and internal control systems and financial reporting function with the management. The Audit and Compliance Committee considers that the annual financial results for the year ended 31 December 2017 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

The Audit and Compliance Committee held three meetings during the year ended 31 December 2017 to, inter alia, (i) review the interim and annual financial results and reports, financial reporting and compliance procedures, the report of the internal auditor on the Group's internal control, (ii) review the Company's corporate governance policies and practices (including but not limited to training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code), (iii) review the risk management and internal control systems of the Group, (iv) review the effectiveness of the internal audit function systems of the Group, (v) consider the re-appointment of the external auditors, and (vi) deal with other matters related to the foregoing.

CORPORATE GOVERNANCE REPORT

The attendance records of the Audit and Compliance Committee held during the year ended 31 December 2017 are set out below:

Committee members	Meetings attended/Total
Mr. HOW Sze Ming (<i>Chairman</i>)	3/3
Mr. ZHANG Qiang	2/3
Ms. POON Philana Wai Yin	3/3

The Group's annual results for the year ended 31 December 2017 and this corporate governance report have been reviewed by the Audit and Compliance Committee on 27 March 2018.

3. *Nomination Committee*

We have established the Nomination Committee with written terms of reference in compliance with paragraph A.4 of the CG Code. During the year ended 31 December 2017, the Nomination Committee comprised three members, of whom two were Independent Non-executive Directors and one was Executive Director:

Mr. WANG Dongfeng (*Chairman*)
Ms. POON Philana Wai Yin
Mr. ZHAO Cong Richard

The primary roles and functions of the Nomination Committee include, but not limited to (i) identifying, selecting and recommending to the Board appropriate candidates to serve as Directors and chief executive officer of the Company, (ii) identifying candidates for succession planning, (iii) overseeing the process for evaluating the performance of the Board, (iv) developing, recommending to the Board and monitoring nomination guidelines for the Group, and (v) assessing the independence of Independent Non-executive Directors.

The Nomination Committee held two meetings during the year ended 31 December 2017 to, inter alia, (i) review the size and composition of the Board or identify any new Board member, (ii) review and assess the policy for the nomination of Directors and the board composition with reference to the board diversity policy of the Company, a summary of which is set out in the paragraph headed "Summary of the board diversity" in this Corporate Governance Report, (iii) consider the appointment of the new chief operations officer of the Company and Executive Director, and (iv) discuss other matters related to the foregoing.

CORPORATE GOVERNANCE REPORT

The attendance records of the Nomination Committee held during the year ended 31 December 2017 are set out below:

Committee members	Meeting attended/Total
Mr. WANG Dongfeng (<i>Chairman</i>)	2/2
Ms. POON Philana Wai Yin	2/2
Mr. ZHAO Cong Richard	2/2

The composition and diversity of the Board were considered by taking into account the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership. The Chairman of the Board and Executive Director possesses extensive IT and web game experience. The other Executive Director, the Non-executive Director and the three Independent Non-executive Directors possess professional knowledge in management, investment, finance and legal matters, respectively with broad and extensive experience in business advisory services and management, respectively.

Where vacancies on the Board arise, the Nomination Committee will carry out the selection process in accordance with the board diversity policy of the Company by making reference to a range of diversity perspectives.

Summary of the board diversity policy

The Board Diversity Policy (the "Policy") was adopted by the Company pursuant to the Board resolution passed on 29 November 2013. The Policy aims to set out the approach to diversity on the Board of the Company. The Policy applies to the Board but not to diversity in relation to the employees of the Company, nor the board or the employees of any subsidiary of the Company. In reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, industry and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will review the Policy, as appropriate, to ensure the effectiveness of the Policy and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval. The Company aims to maintain an appropriate balance of diversity perspectives of the Board in supporting the attainment of its strategic objectives and its sustainable development. The Board has not set any measurable objectives for implementing the Policy.

CORPORATE GOVERNANCE REPORT

D. Model Code for Securities Transactions

The Company has adopted the code of conduct and procedures governing Directors' securities transactions in stringent compliance with the Model Code. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2017.

E. Directors' Responsibilities for Financial Reporting

The Directors acknowledge their responsibility for preparing the Financial Statements of the Group and the Company for the year ended 31 December 2017.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules and other regulatory requirements.

The senior management has provided such explanation and information to the Board as are necessary to enable the Board to carry out an informed assessment of the financial information and position of the Group.

F. External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the Financial Statements is set out in the "Independent Auditor's Report" from pages 83 to 90 of this annual report.

The external auditor of the Company will be invited to attend the Annual General Meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report and the auditor's independence.

For the year ended 31 December 2017, the fees paid/payable to PricewaterhouseCoopers for the audit service were RMB5.0 million.

Fees paid/payable to PricewaterhouseCoopers for non-audit services provided to the Group for the year were RMB3.7 million. The non-audit services mainly include professional service on due diligence for investment of the Group.

CORPORATE GOVERNANCE REPORT

G. Risk Management and Internal Control

The Board is responsible for the risk management and internal control systems of the Group and reviewing their effectiveness.

The Group's risk management and internal control systems include a well-established organisational structure with clearly defined lines of responsibility and authority. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The day-to-day departmental operations are entrusted to the individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time. Each department is also required to keep the senior management informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis.

Systems and procedures are also in place in the Group to identify, control and report on the major types of risks the Group encounters. Each department is responsible for the assessment of individual types of risks arising under their areas of responsibilities. Relevant risks identified are reported to the Board for overseeing and monitoring of the respective types of risks. The Group's risk management and internal control systems are monitored and reviewed regularly (at least three times a year) by the Board which covers the full financial year.

During the year ended 31 December 2017, the Board has reviewed of the effectiveness of the risk management and internal control systems of the Group. The review has covered the financial, operational and compliance and risk management aspects of the Group's risk management and internal control systems implemented in the year ended 31 December 2017. The review included discussions with the management of the Company, its external and internal auditors and the review was performed by the Audit and Compliance Committee. The review results have been reported to the Board. The Board is satisfied that such systems are effective and adequate. In addition, the Board has also reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting functions. The Board has also received a confirmation from the management that the Company's risk management and internal control systems are adequate and effective.

H. Framework for Disclosure of Inside Information

The Group has put in place a robust framework for the disclosure of inside information in compliance with the Securities and Futures Ordinance. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the stakeholders to apprehend the latest position of the Group. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

CORPORATE GOVERNANCE REPORT

I. Internal Audit

The Group has in place an internal audit function. The primary role of the internal audit function is to help the Board and the senior management of the Group to protect the assets, reputation and sustainability of the Group. The internal audit function provides independent and objective assurance as to whether the design and operational effectiveness of the Group's framework of control and governance processes, as designed and represented by the Company's management, is adequate. The internal audit function of the Group is independent of the internal control systems of the Group.

Results of audit work together with an assessment of the overall internal control framework are reported to the Audit and Compliance Committee as appropriate. The internal audit function also reviews the Company's management's action plans in relation to audit findings and verifies the adequacy and effectiveness of the mitigating controls before formally closing the issues.

J. Communications with Shareholders and Investors

The Company considers that effective communication with Shareholders is essential to enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make informed investment decisions.

The general meetings of the Company are expected to provide a forum for communication between the Board and the shareholders. The Chairman of the Board, the chairmen of the Remuneration Committee, Audit and Compliance Committee and Nomination Committee, or, in their absence, other members of the respective committees are available to answer questions at the general meetings.

At the annual general meeting of the Company held on 23 May 2017, a resolution was proposed by the Chairman in respect of each separate issue itemised on the agenda, including re-election of retiring directors. Procedures for conducting a poll were explained by the chairman at the meeting. The Chairman of the Board and the chairman of each of the board committees were present to answer questions from Shareholders. Representatives from external auditors had also attended the annual general meeting of the Company held on 23 May 2017. All resolutions were voted by way of poll. The Company appointed the branch share registrar of the Company to act as scrutineers and to ensure votes cast were properly counted and recorded, and announced the results of the poll on the websites of the Stock Exchange and the Company in accordance with the Articles and the Listing Rules. No other general meeting was held by the Company during the year under review.

To promote effective communication, the Company maintains a website at www.forgame.com, where information and updates on the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access.

The Company has established a shareholders' communication policy since 3 October 2013 and will review it on a regular basis to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT

K. Shareholder Rights

To safeguard Shareholder interests and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors. Meanwhile, the procedures for Shareholder to (i) convene an extraordinary general meeting, (ii) direct their enquiries to the Board and (iii) put forward proposals at Shareholders' meetings are available.

Shareholders should direct their enquiries about their shareholdings to the Company's Hong Kong share registrar, namely, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Shareholders who wish to put enquiries to the Board can send their enquiries to the company secretary of the Company who will ensure these enquiries to be properly directed to the Board. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Corporate communication of the Company will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

General meetings shall be convened on the written requisition of any two or more Shareholders of the Company deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one shareholder of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. The same procedures also apply to any proposal to be put forward at the general meetings. If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

All resolutions put forward at a general meeting will be taken by poll pursuant to the Listing Rules. In addition, the poll results will be posted on the websites of the Company and the Stock Exchange after the Shareholders' meeting.

During the year ended 31 December 2017, there was no change in the constitutional documents of the Company. The latest version of the Company's Articles is available on the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

L. Company Secretary

Ms. LU Feinan was appointed by the Board as the company secretary of the Company with effect from 4 January 2017.

Ms. LU Feinan is a full-time employee of the Group and is also the senior legal counsel of the Group. She reports to the Chairman of the Board and Chief Executive Officer of the Company. All Directors have access to the advice and services of the company secretary of the Company to ensure the Board procedures, and all applicable law, rules and regulations, are followed.

For the financial year ended 31 December 2017, Ms. Lu had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management of the Company as at 31 December 2017 and up to the Latest Practicable Date were:

DIRECTORS

Executive Directors

Mr. WANG Dongfeng (*Chairman and Chief Executive Officer*)

Ms. LIANG Na (*Chief Financial Officer*)

Mr. ZHANG Yang (*Chief Operations Officer*) (*appointed with effect from 31 August 2017*)

Non-executive Director

Mr. ZHANG Qiang

Independent Non-executive Directors

Mr. HOW Sze Ming

Ms. POON Philana Wai Yin

Mr. ZHAO Cong Richard

The Company has received from each Independent Non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

WANG Dongfeng, aged 41, co-founded the Group in September 2009 and was appointed as the Chairman and Executive Director on 26 July 2011. Since Mr. Wang acquired interests in Feiyin and Weidong, he has been involved in the Group's management in the capacity as a shareholder by making important management decisions. Mr. Wang has also been Chief Executive Officer of the Company since July 2011 and was appointed as the Company's authorised representative on 4 February 2013. He is responsible for the overall corporate development and strategic management of the Group's business and participates in making the Group's key strategic and operational decisions. In addition, Mr. Wang also sits on the boards of various companies within the Group, including acting as chairman of Foga Tech since August 2011. He also has been serving as executive director of the Feidong PRC Operational Entities, namely Feiyin and Weidong since May 2011 and Jiyou since June 2012 where he is mainly responsible for overseeing the overall development of the companies and formulating corporate and business strategies.

Mr. Wang has more than 17 years of experience in technology-oriented companies. From January 2005 to October 2008, he was the chief executive officer of ZCOM (北京智通無限科技有限公司) where he was responsible for carrying out the strategies and policies established by ZCOM. Prior to that, he was also the business director of Beijing Feixing Network Music Software Development Co., Ltd from April 2000 to August 2004 where he was involved in the operations of the business.

Mr. Wang graduated from Beijing Construction University, the PRC, in July 1998 where he obtained a college diploma in international trade and global economics. Mr. Wang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years. Mr. WANG is the chairman of the Nomination Committee.

DIRECTORS AND SENIOR MANAGEMENT

LIANG Na, aged 37, was appointed as an Executive Director on 24 May 2016. Ms. Liang was appointed as the chief financial officer of the Group with effect from 1 November 2014. She has held various key roles within the Group (including vice president and director of finance of the Group) and has over 14 years of financial management experience in both traditional and technology sectors. Prior to joining the Group in June 2011 as director of finance, she was employed by Digital China Holdings Limited, a company whose shares are listed on the Main Board (Stock Code: 00861) from January 2005 to June 2011 and took up the role of director of finance within the supply chain business unit.

Ms. Liang is responsible for overseeing the Group's financial management, corporate finance, budget implementation, investor relations, as well as managing the Group's support functions.

Ms. Liang graduated from Xi'an University of Technology and obtained a bachelor degree in accounting in July 2002. Ms. Liang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

ZHANG Yang, aged 36, was appointed as an Executive Director and also as the chief operations officer of the Company on 31 August 2017.

Mr. Zhang has over 10 years of experience at Alibaba group and held various managerial positions in business units such as cn.Yahoo.com (雅虎中國), Taobao.com (淘寶網), Koubei.com (口碑網), Alipay (支付寶) and Alibaba Cloud (阿里雲), where he had accumulated extensive experience in corporate management. Mr. Zhang founded Jianlicai in 2015, which is principally engaged in the internet finance business in the PRC through the operations of websites and mobile phone applications under the Jianlicai brands. Mr. Zhang serves as the chief executive officer of Jianlicai where he is fully responsible for overall strategic planning and operation management, and also serves as director or legal representatives of a couple of subsidiaries of the Company.

Mr. Zhang transforms the traditional wealth management model by introducing artificial intelligence in a creative approach, thus enabling users to access secure and high quality assets instantly through automatic asset matching by using big data and artificial intelligence. As a result, this model combined with the exceptionally user-friendly design of Jianlicai was highly sought after by many investors upon its launch. Mr. Zhang was accredited as China's Annual New Talent in New Finance Industry in 2017 by Hurun Report for his outstanding achievements in finance innovation. Since the merger of Jianlicai into the Group, Mr. Zhang has continued to be responsible for the daily operation of Jianlicai. Mr. Zhang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. Zhang is currently studying for the degree of master of business administration at Tsinghua University.

DIRECTORS AND SENIOR MANAGEMENT

ZHANG Qiang, aged 42, was appointed as a Non-executive Director on 24 May 2016. Mr. Zhang is currently a vice president and the Deputy CFO of TPV Technology Limited, a company whose shares are listed on the Main Board (Stock Code: 00903).

Mr. Zhang was a vice president of Unisplendour Technology (Holdings) Limited, a company whose shares are listed on the Main Board (Stock Code: 00365). He was a vice president (Corporate Finance) of TPV Technology Limited and was responsible for corporate finance activities, investors relations and public relations. Mr. Zhang was the managing director of China Great Wall Computer (Hong Kong) Holding Limited from March 2004 to January 2015, a vice president of investment and overseas business of China Great Wall Computer Shenzhen Company Limited (a company whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000066.sz)) from July 2007 to January 2015, the chairman secretary of Great Wall Technology Company Limited from April 2002 to February 2004, the CEO assistant and company secretary of HiChina Web Solution Company Limited from June 2001 to January 2002 and a project manager of importation of Poly Technology Inc. Ltd. from July 1998 to May 2001.

Mr. Zhang graduated from the University of International Business and Economics with a bachelor degree in economics, followed by a master degree in business administration at China Europe International Business School. Save as disclosed above, Mr. Zhang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. Zhang has been a member of the Audit and Compliance Committee and the Remuneration Committee since 24 May 2016.

HOW Sze Ming, aged 41, was appointed as an Independent Non-executive Director on 1 January 2016.

Mr. How has over 17 years of experience in investment banking and business assurance industries. From September 1999 to July 2002, Mr. How worked as a senior associate in the Assurance and Business Advisory Department of PricewaterhouseCoopers and was primarily responsible for assurance and business advisory work. From July 2002 to June 2003, he worked as a corporate finance executive of Tai Fook Securities Company Limited (now known as Haitong International Securities Company Limited), a company which was principally engaged in securities broking, securities dealing and leveraged foreign exchange trading, where he was responsible for corporate finance advisory work. From July 2003 to December 2004, Mr. How worked as an assistant manager at Tai Fook Capital Limited (now known as Haitong International Capital Limited), a company principally engaged in corporate finance advisory services, where he was responsible for corporate finance advisory work. From December 2004 to May 2006, he worked as an assistant vice president of CCB International Capital Limited, a company principally engaged in securities advisory, securities dealing and corporate finance advisory, where he was responsible for corporate finance advisory work. From June 2006 to March 2009, Mr. How worked as an assistant vice president in the Investment Banking Division of ICEA Capital Limited, a company principally engaged in dealing in securities and corporate finance advisory services, where he was responsible for corporate finance advisory work. From April 2009 to February 2010, he worked as an assistant vice president in the Investment Banking Division of ICBC International Holding Limited, a company principally engaged in investment banking, where he was responsible for corporate finance advisory work. From February 2010 to June 2015, Mr. How was a managing director of the Investment Banking Department of CMB International Capital Corporation Limited, a company principally engaged in investment banking, securities brokerage and asset management, where he was responsible for corporate finance advisory work. From July 2015 to January 2016, Mr. How was a managing director of Zhaobangji International Capital Limited, a company principally engaged in investment banking and advisory services, where he is responsible for corporate finance advisory work.

DIRECTORS AND SENIOR MANAGEMENT

Mr. How joined Southwest Securities (HK) Capital Limited, a company principally engaged in corporate finance and advisory services, in February 2016 and is currently a managing director and co-head of corporate finance where he is responsible for corporate finance advisory work. Southwest Securities is an indirect wholly-owned subsidiary of Southwest Securities International Securities Limited, a company whose shares are listed on the Main Board (Stock Code: 00812). Mr. How was an independent non-executive director of (i) QPL International Holdings Limited, a company whose shares are listed on the Main Board (Stock Code: 00243) from September 2013 to September 2016 and (ii) Odella Leather Holdings Limited, a company whose shares are listed on the Growth Enterprise Market of The Stock Exchange (Stock Code: 08093) from January 2015 to March 2017. Mr. How has been an independent non-executive director of (i) World-Link Logistics (Asia) Holding Limited, a company whose shares were previously listed on the Growth Enterprise Market of The Stock Exchange and are now on the Main Board (Stock Code: 06083), since December 2015; (ii) Shanghai Zendai Property Limited, a company whose shares are listed on the Main Board (Stock Code: 00755), since May 2017 and (iii) 1957 & Co. (Hospitality) Limited, a company whose shares are listed on the Growth Enterprise Market of The Stock Exchange (Stock Code: 08495) (Listing Date: 5 December 2017), since November 2017.

Mr. How graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree (first class honour, majoring in professional accountancy) in December 1999. By profession, he is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Save as disclosed above, Mr. How is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. How has been the chairman of the Audit and Compliance Committee and a member of the Remuneration Committee since 1 January 2016.

POON Philana Wai Yin, aged 50, was appointed as an Independent Non-executive Director on 1 September 2013.

Ms. Poon is currently an executive director of the Hong Kong Jockey Club, with overall responsibility for its legal and compliance functions. Between 1998 and 2015, Ms. Poon held various senior roles in the PCCW-HKT Group, an organisation listed on the Stock Exchange with communications, media and IT solutions businesses in Hong Kong and overseas. She was the Group General Counsel and Company Secretary of HKT Limited and the HKT Trust (together, "HKT"), a company whose shares are listed on the Main Board (Stock Code: 06823) from November 2011 to April 2015, and the Group Company Secretary of PCCW Limited ("PCCW"), a company whose shares are listed on the Main Board (Stock Code: 00008) from August 2012 to April 2015. She was also the Group General Counsel and Company Secretary of PCCW from February 2007 to November 2011, and General Counsel of PCCW Group from February 2004 to February 2007. Ms. Poon has held directorships in various PCCW-HKT group companies during this 17 year period and was primarily responsible for legal and company secretarial matters of the PCCW and HKT groups. She has over 20 years of post-qualification experience both in private practice and in-house. Prior to joining PCCW-HKT, Ms. Poon was in private practice from 1992 to 1998.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Poon obtained a Bachelor of Commerce degree from the University of Toronto in November 1989 and a Doctor of Law degree from Cornell University in May 1992. Ms. Poon has been an independent non-executive director of Asia Satellite Telecommunications Holdings Limited, a company whose shares are listed on the Main Board (Stock Code: 01135), since 16 March 2018. Ms. Poon was an independent non-executive director of AZ Electronic Materials S.A., a company which was listed on the London Stock Exchange, from June 2012 to May 2014. Save as disclosed above, Ms. Poon is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Ms. Poon is a member of the Audit and Compliance Committee and the Nomination Committee.

ZHAO Cong Richard, aged 67, was appointed as an Independent Non-executive Director on 1 September 2013.

Mr. Zhao has been serving as the Chairman of SingMeng Telemedia Group Ltd. since January 2016. Mr. Zhao has over 30 years of experience in managing and investing in businesses based in Hong Kong and China. From March 2002 to December 2015, he served as the managing director of Yangtze Ventures Management Limited. From March 2000 to February 2001, he served as a vice president of the venture capital arm of PCCW Limited, a company whose shares are listed on the Main Board (Stock Code: 00008), stationed in Beijing, PRC, where he assisted in completing a number of key investments. From October 1995 to March 2000, Mr. Zhao served as the chief adviser to the president and chief executive officer of China Investment Group Ltd., where he was responsible for providing analysis on political and economic issues and investment opportunities in China. From April 1992 to January 1995, he served as the general manager of the China Division of China Strategic Holdings Limited, a company whose shares are listed on the Main Board (Stock Code: 00235), where he assisted in the completion of numerous joint ventures in China. Prior to that, Mr. Zhao also served as a deputy general manager and a director at Power View Development Ltd. between 1988 to 1991, a trading manager and a director at Reliance Agency Ltd. between 1986 to 1988, and a trading manager and a director at High & Mighty Co. Ltd. between July 1983 to July 1986.

Mr. Zhao currently serves as a director in three management service companies, namely Viscon Limited since July 1994, the Yangtze Ventures Management (HK) Limited since March 2002 and Yangtze Capital Advisory Limited since June 2007, and an investment holding company, namely Ecoplast Technologies Inc since November 2009. Mr. Zhao also served as a non-executive director of CIG Yangtze Ports PLC, a company whose shares are listed on the Growth Enterprise Market of The Stock Exchange (Stock Code: 08233) from November 2003 to January 2007. In addition, he was admitted as a fellow by the Hong Kong Institute of Directors in July 2006. Save as disclosed above, Mr. Zhao is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. Zhao is the chairman of the Remuneration Committee and a member of the Nomination Committee.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The Group's senior management is responsible for the day-to-day management of the business of the Group. The table below shows certain information in respect of the senior management of the Group as at 31 December 2017:

Name	Age	Position/Title	Date of Appointment
YANG Tao	41	Chief Product Officer	15 June 2012
LIANG Na	37	Chief Financial Officer	1 November 2014
ZHANG Yang	36	Chief Operations Officer	31 August 2017

YANG Tao, aged 41, was appointed as the chief product officer of the Group on 15 June 2012. He joined the Group in June 2010 through Feiyin where he was the game producer until November 2011. On December 2011, he became the vice president where he was in charge of overseeing the development of webgames and products of the Group. Mr. Yang is primarily responsible for the research and development of webgame products at the Group and drives the planning and selection of the genres, features and design of webgames. Mr. Yang possesses management and development experience in the webgame industry, which is underpinned by his work in pioneering the Group's “凡人修真” (translated as “Soul Guardian”) flagship webgame series.

Prior to joining the Group, he was the deputy general manager of Beijing Internet Vision Technology Co. Ltd from July 2007 to August 2008 where he was responsible for managing the research and development of the company.

Mr. Yang graduated from Capital University of Economics where he was awarded a college diploma in economics information management in July 1998. Mr. Yang is not and has not been a director of any listed companies in Hong Kong or overseas in the past three years.

The biographies of Ms. LIANG Na and Mr. ZHANG Yang have been disclosed under the paragraph headed “Biographical Details of Directors” above.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of Forgame Holdings Limited

(Incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Forgame Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 91 to 193, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of comprehensive income/(loss) for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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INDEPENDENT AUDITOR'S REPORT

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition – estimates of lifespan of in-game virtual items with reference to expected playing period of paying players ("Player Relationship Period") in the Group's game development and platform publishing service ("Game Business")
- Impairment assessment of loan receivables
- Business combination and goodwill impairment assessment

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Revenue recognition – estimates of lifespan of in-game virtual items with reference to expected playing period of paying players (“Player Relationship Period”) in the game development and platform publishing service (“Game Business”)

Refer to Notes 2.21, 5 and 26 to the consolidated financial statements.

During the year ended 31 December 2017, the Group's revenue from Game Business amounted to RMB183,447,000, representing 53% of the Group's total revenue. It was mainly derived from the sales of in-game virtual items. The amount of associated deferred revenue amounted to RMB6,896,000 as at 31 December 2017, representing 2% of the Group's total liabilities as at the same date.

The Group's in-game virtual items are categorised as both durable items and consumable items. Revenue derived from consumable items in its Game Business (defined in Note 2.21) are recognised once they are consumed. Revenue derived from durable virtual items in Game Business are recognised ratably over the Player Relationship Period (defined in Note 2.21).

The determination of the Player Relationship Period for relevant online virtual items requires significant judgement and estimates. These judgements and estimates included (i) the determination of key assumptions applied in the expected users' relationship periods, including but not limited to historical users' consumption pattern and games life-cycle; and (ii) the identification of events that may trigger changes in the expected users' relationship period. Thus, specific audit focus was placed in this area.

How our audit addressed the Key Audit Matter

We understood and evaluated the design effectiveness of internal controls in relation to the recognition of revenue from in-game virtual items, including oversight exercised by management in assessing the Player Relationship Periods.

We, on a sample basis, validated operating effectiveness of internal controls in respect of the recognition of revenue from sales of virtual items, including management's review and approval of (i) determination of the estimated lifespan of new virtual items prior to their launches; and (ii) changes in the estimated lifespan of existing virtual items based on periodic reassessment on any indications triggering such changes. We also assessed the data generated from the Group's information system supporting the management's review, including testing the information system logic for generation of reports, and checking, on a sample basis, the monthly computation of revenue recognised on selected virtual items generated directly from the Group's information system.

We discussed with management and evaluated their judgements and estimations made in determining the Player Relationship Period. We also assessed the historical accuracy of the management's estimation process by comparing the actual Player Relationship Period for the preceding year against the original estimation, on a sample basis.

We validated, on a sample basis, the classification of consumable and durable items by reviewing the prescribed usage of the items and the existence of any implied obligations of the Group to provide the services to game players after the specific in-game virtual items were consumed.

We also recalculated the deferred revenue balance of different virtual items based on the respective Player Relationship Period on a sample basis.

Based on the above, we found that the significant judgement and estimates involved in determining the Player Relationship Periods adopted by management in the revenue recognition of in-game virtual items of the Group were supported by the evidence we obtained.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Impairment assessment of loan receivables

Refer to Note 4.2 (c) and 20 to the consolidated financial statements.

As at 31 December 2017, the Group's net loan receivables amounted to RMB231,742,000, after netting off with a provision for impairment losses of RMB3,510,000.

The Group adopts an individual impairment assessment approach for individually significant loans; and a collective impairment assessment approach for loans not individually significant or not individually impaired. As at 31 December 2017, all of the Group's loans were not individually significant or individually impaired. Therefore, a collective impairment assessment approach was adopted, and an assessment of future cash flows for loan portfolios was performed based on historical loss rates of the Group and those of other comparable companies in the market/industry, taking into consideration of impact from changes of and uncertainties in the macro-economic environment.

We focused on this area because the carrying value of loan receivables is significant to the consolidated financial statements and the impairment assessment of loan receivables require the use of significant judgments and estimates by management.

How our audit addressed the Key Audit Matter

We understood, evaluated and validated the design and operating effectiveness of internal controls in relation to the credit approval process, post approval credit management, monitoring of collateral and financial ability of guarantors; and estimation of the amount of provisions. We also assessed the data generated from the Group's information system supporting the impairment assessment of loan receivables, including testing the information system logic for generation of reports such as the loan ageing report used in the impairment assessment of loan receivables.

We performed independent credit review of the loan portfolio of the Group, considering the ageing of the loan receivables, the financial ability of guarantors, values of collaterals, historical collection record; as well as subsequent collection of past due loans, to assess whether management's judgement of no individually impaired loans as at 31 December 2017 was appropriate.

For the collective assessment approach used for the Group's loan receivables, we tested the mathematical accuracy of the calculation. We also assessed the reasonableness of the key inputs applied mainly including the historical loss rate, by considering the historical loss experience of the Group and independently seeking corroboration with available industry information.

Based on the procedures described above, we considered the key judgments and estimates applied in the impairment assessment of loan receivables were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Business combination and goodwill impairment assessment

Refer to Note 4.1 (e) & (f), 15 and 32 to the consolidated financial statements.

On 16 August 2017 (the acquisition date), the Group completed the acquisition of 55% equity interest in Jlc Inc. from Yinker Inc., details of the acquisition are disclosed in Note 32 to the consolidated financial statements. This acquisition was accounted for as a business combination under IFRS 3.

In this connection, the Group is required to determine the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date. Management engaged an independent professional valuer to assist them to assess the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date. The fair values of intangible assets identified were determined using the income approach based on the discounted future cash flow attributable to the identifiable intangible assets acquired. The purchase prices were allocated to the identifiable assets and liabilities acquired under IFRS 3. In this connection, the Group recognised identifiable intangible assets of brand name, platform and backlog amounting to RMB191,500,000 in total and goodwill amounting to RMB205,883,000 at the acquisition date.

The Group is required to test the amount of goodwill for impairment at least annually, or when there are events or changes in circumstances indicate that it might be impaired. In this regard, with the assistance of an independent professional valuer, management has performed the valuation of Jlc Inc., which is a standalone cash-generating unit, with a value in use model to support management's estimates of the recoverable value of the goodwill. The valuation is dependent on certain key assumptions such as revenue growth rate and the discount rate included in the discounted cash flows.

We focus on this area due to the significance of the purchase acquisition cost and the carrying amount of goodwill, complexity of the valuation methodology; and the significant judgements and estimates adopted by management in relation to the allocation of the purchase cost to the assets acquired and liabilities assumed as well as those used in the goodwill impairment assessment.

How our audit addressed the Key Audit Matter

We assessed the competency, capabilities and objectivity of the external valuer engaged by the Group.

For the business combination, we obtained and reviewed the acquisition agreements and valuation report. With the involvement of our internal valuation experts, we assessed:

- the completeness of the assets acquired and liabilities assumed, in particular the identification of the intangible assets acquired;
- the appropriateness of the valuation methodology adopted;
- the reasonableness of key assumptions used in the valuation of intangible assets identified, including but not limited to revenue growth rate, estimated useful lives of the intangible assets; and the discount rate by comparing to available industry information; and
- checked mathematical accuracy of the valuation model.

For the goodwill impairment assessment, our audit procedures included:

- assessed the appropriateness of the valuation methodology adopted;
- obtained management's future cash flow forecast, agreed them to the approved financial budget;
- compared historical actual results with the prior year forecast to consider whether key assumptions included in the forecast had been subject to management bias;
- assessed reasonableness of management's assumptions on the revenue growth rate, terminal growth rate after 5 years and discount rate by comparing to future operating plan and available industry information;
- performed sensitivity analysis around the growth rates and the discount rate, and assessed the degree to which these assumptions would need to alter before an impairment conclusion was triggered; and
- checked mathematical accuracy of the valuation model.

Based on the above, we found that assumptions used by management in assessing the purchase price allocation for the business combination and goodwill impairment assessment were supportable by the available evidences and information.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT AND COMPLIANCE COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit and Compliance Committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with Audit and Compliance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wilson W.Y. Chow.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

	Note	Year Ended 31 December	
		2017 RMB' 000	2016 RMB' 000
Revenue	5	346,466	361,564
Cost of revenue	6	(124,185)	(289,015)
Gross profit		222,281	72,549
Selling and marketing expenses	6	(77,274)	(88,820)
Administrative expenses	6	(99,439)	(121,983)
Research and development expenses	6	(49,425)	(96,476)
Other income	7	7,701	11,787
Other losses	8	(9,394)	(14,246)
Finance income - net	10	5,384	8,701
Gain on dilution of investments accounted for using the equity method	11b	—	3,907
Gain on disposal of investment in an associate	11b	62,576	—
Gain on disposal of available-for-sale financial assets	18	11,500	—
Share of income of investments accounted for using the equity method	11b	10,850	2,047
Impairment of investment in associates	11b	—	(22,219)
Impairment of available-for-sale financial assets	18	(6,540)	(108,063)
Impairment loss on intangible assets and property and equipment	14, 15	(5,077)	(30,198)
Profit/(loss) before income tax		73,143	(383,014)
Income tax expense	12	(4,495)	(13,478)
Profit/(loss) for the year		68,648	(396,492)
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to profit or loss:			
– Change in value of available-for-sale financial assets	18	(298)	(5,202)
Items that will not be subsequently reclassified to profit or loss:			
– Currency translation differences	24	(19,632)	35,783
Total other comprehensive (loss)/income, before tax		(19,930)	30,581
Income tax relating to components of other comprehensive (loss)/income	29	45	780
Other comprehensive (loss)/income for the year, net of tax		(19,885)	31,361
Total comprehensive income/(loss) for the year		48,763	(365,131)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

	Note	Year Ended 31 December	
		2017 RMB'000	2016 RMB'000
Profit/(loss) attributable to:			
– Owners of the Company		74,035	(395,174)
– Non-controlling interests		(5,387)	(1,318)
		<u>68,648</u>	<u>(396,492)</u>
Total comprehensive income/(loss) attributable to:			
– Owners of the Company		54,150	(363,813)
– Non-controlling interests		(5,387)	(1,318)
		<u>48,763</u>	<u>(365,131)</u>
Earning/(loss) per share (expressed in RMB per share)			
– Basic	13	<u>0.54</u>	<u>(2.89)</u>
– Diluted		<u>0.53</u>	<u>(2.89)</u>

The notes on pages 99 to 193 are integral parts of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2017 RMB' 000	2016 RMB' 000
ASSETS			
Non-current assets			
Property and equipment	14	8,565	8,217
Intangible assets	15	376,596	17,381
Investments accounted for using the equity method	11b	12,057	23,582
Financial assets at fair value through profit or loss	17	—	319,922
Available-for-sale financial assets	18	15,312	23,150
Prepayments and other receivables	21	3,876	1,183
Deferred income tax assets	29	524	—
		<u>416,930</u>	<u>393,435</u>
Current assets			
Trade receivables	19	40,249	40,480
Loan receivables	20	231,742	—
Prepayments and other receivables	21	144,145	10,112
Restricted cash	22	751	807
Short-term deposits	22	34,650	448,997
Cash and cash equivalents	22	654,915	267,986
		<u>1,106,452</u>	<u>768,382</u>
Total assets		<u><u>1,523,382</u></u>	<u><u>1,161,817</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	23	87	87
Shares held for Restricted Share Units Scheme	23	(9,584)	—
Share premium	23	2,074,087	2,073,900
Reserves	24	(74,402)	(65,296)
Accumulated losses		(881,487)	(949,535)
		<u>1,108,701</u>	<u>1,059,156</u>
Non-controlling interests		<u>72,716</u>	<u>(1,046)</u>
Total equity		<u><u>1,181,417</u></u>	<u><u>1,058,110</u></u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2017 RMB'000	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	29	32,177	64
Deferred revenue	26	270	410
		<u>32,447</u>	<u>474</u>
Current liabilities			
Trade payables	27	34,169	26,652
Other payables and accruals	28	252,854	64,107
Income tax liabilities		15,469	1,620
Deferred revenue	26	7,026	10,854
		<u>309,518</u>	<u>103,233</u>
Total liabilities		<u>341,965</u>	<u>103,707</u>
Total equity and liabilities		<u>1,523,382</u>	<u>1,161,817</u>

The notes on pages 99 to 193 are integral parts of these consolidated financial statements.

The financial statements on pages 91 to 193 were approved by the Board of Directors on 27 March 2018 and were signed on its behalf.

WANG Dongfeng
Director

LIANG Na
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to Owners of the Company								
Note	Shares held for Restricted			Accumulated		Total	Non- Controlling Interests	Total Equity
	Share Capital	Share Premium	Share Units Scheme	Reserves	Losses			
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Balance at 1 January 2016	88	2,099,777	—	(100,750)	(554,361)	1,444,754	(28)	1,444,726
Comprehensive loss								
Loss for the year	—	—	—	—	(395,174)	(395,174)	(1,318)	(396,492)
Other comprehensive income:								
Revaluation of available-for-sale financial assets	24	—	—	(4,422)	—	(4,422)	—	(4,422)
Currency translation differences	24	—	—	35,783	—	35,783	—	35,783
Total comprehensive loss				31,361	(395,174)	(363,813)	(1,318)	(365,131)
Transactions with owners in their capacity as owners								
Capital injection		—	—	—	—	—	300	300
Repurchase and cancellation of shares	23	(2)	(26,180)	—	—	(26,182)	—	(26,182)
Employee share-based compensation scheme:								
– Shares purchased for Restricted Share Units Scheme	23	—	—	(7,836)	—	(7,836)	—	(7,836)
– Vesting and allotting of shares of Restricted Share Units Scheme	23	—	303	7,836	(8,139)	—	—	—
– Value of employee services	25	—	—	16,272	—	16,272	—	16,272
– Shares issued upon exercise of employee share options	23	1	—	—	—	1	—	1
Total transactions with owners in their capacity as owners		(1)	(25,877)	8,133	—	(17,745)	300	(17,445)
Transfer out of share of other net asset changes in associates' equity	11b	—	—	(4,040)	—	(4,040)	—	(4,040)
Balance at 31 December 2016	87	2,073,900	—	(65,296)	(949,535)	1,059,156	(1,046)	1,058,110

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to Owners of the Company							
		Shares held for Restricted				Non-Controlling			
		Share	Share Units	Accumulated		Total	Interests	Total Equity	
Note		RMB' 000	RMB' 000	RMB' 000	Reserves RMB' 000	Losses RMB' 000	RMB' 000	RMB' 000	
	Balance at 1 January 2017	87	2,073,900	—	(65,296)	(949,535)	1,059,156	(1,046)	1,058,110
	Comprehensive income								
	Profit for the year	—	—	—	—	74,035	74,035	(5,387)	68,648
	Other comprehensive loss:								
	Revaluation of available-for-sale financial assets	24	—	—	(253)	—	(253)	—	(253)
	Currency translation differences	24	—	—	(19,632)	—	(19,632)	—	(19,632)
	Total comprehensive income				(19,885)	74,035	54,150	(5,387)	48,763
	Transactions with owners in their capacity as owners								
	Acquisition of a subsidiary	32	—	—	—	—	—	79,149	79,149
	Employee share-based compensation scheme:								
	– Shares purchased for Restricted Share Units Scheme	23	—	(19,681)	—	—	(19,681)	—	(19,681)
	– Vesting and allotting of shares of Restricted Share Units Scheme	23	—	10,097	(7,719)	(2,378)	—	—	—
	– Value of employee services	25	—	—	14,889	—	14,889	—	14,889
	– Shares issued upon exercise of employee share options	23	—	187	—	—	187	—	187
	Profit appropriations to statutory reserves	24	—	—	3,609	(3,609)	—	—	—
	Total transactions with owners in their capacity as owners		187	(9,584)	10,779	(5,987)	(4,605)	79,149	74,544
	Balance at 31 December 2017	87	2,074,087	(9,584)	(74,402)	(881,487)	1,108,701	72,716	1,181,417

The notes on pages 99 to 193 are integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year Ended 31 December	
		2017	2016
		RMB' 000	RMB' 000
	Note		
Cash flows from operating activities			
Cash used in operations	30	(77,210)	(77,015)
Income tax (paid)/refund		(536)	4,034
		<u>(77,746)</u>	<u>(72,981)</u>
Net cash used in operating activities			
Cash flows from investing activities			
Purchases of property and equipment		(5,240)	(656)
Proceeds from disposals of property and equipment	30	1,492	840
Purchases of intangible assets		(465)	(10,555)
Payments for investments in associates		—	(6,330)
Proceeds from disposal of investment in an associate		43,750	—
Acquisitions of financial assets at fair value through profit or loss		—	(300,488)
Prepayments for investment		(700)	—
Purchases of available-for-sale financial assets		(10,000)	(14,160)
Cash acquired from business combination		46,241	—
Placement of short-term deposits		(368,074)	(1,360,655)
Proceeds received upon maturity of short-term deposits		773,331	1,130,757
Interest received from short-term deposits		6,403	8,300
Payment for restricted cash		—	(717)
Refund of restricted cash		—	584
Interest received from restricted cash		—	3
		<u>486,738</u>	<u>(553,077)</u>
Net cash provided by/(used in) investing activities			

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year Ended 31 December	
		2017 RMB'000	2016 RMB'000
Cash flows from financing activities			
Purchases of shares for Restricted Share Units Scheme	23	(19,681)	(7,836)
Payment for repurchase of shares		—	(26,182)
Proceeds from issuance of shares upon exercise of employee share options	23	—	1
Proceeds from capital contribution from non-controlling interests holders		—	300
Net cash used in financing activities		(19,681)	(33,717)
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of year	22	267,986	927,129
Effects of exchange rate changes on cash and cash equivalents		(2,382)	632
Cash and cash equivalents at end of year		654,915	267,986

The notes on pages 99 to 193 are integral parts of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Forgame Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 26 July 2011 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company’s registered office is at the offices of Osiris International Cayman Limited, Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, P.O. Box 32311, Grand Cayman KY1-1209, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively the “Group”) are principally engaged in developing and publishing domestic and overseas webgames and mobile games (the “Game Business”) and providing online wealth management service and internet micro-credit service (the “Fintech Business”) in the People’s Republic of China (the “PRC”).

On 3 October 2013, the Company completed its initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited (the “IPO”).

In December 2016, the Group obtained a license to carry out internet micro-credit business from the government and subsequently commenced the operation of the Group’s Fintech Business in the PRC.

On 16 August 2017, the Group completed the acquisition of 55% equity interest in Jlc Inc., which is principally engaged in providing online wealth management services to online investors. Details of the acquisition are further disclosed in Note 32.

The Group’s Game Business is carried out through several domestic operating companies, incorporated in the PRC, namely Guangzhou Weidong Internet Technology Co., Ltd. (廣州維動網絡科技有限公司, “Weidong”), Guangzhou Feiyin Information Technology Co., Ltd. (廣州菲音信息科技有限公司, “Feiyin”), and Guangzhou Jieyou Software Co., Ltd. (廣州捷遊軟件有限公司, “Jieyou”). Mr. Wang Dongfeng, Mr. Huang Weibing, Mr. Liao Dong, Mr. Yang Tao and Mr. Zhuang Jieguang (collectively as the “Founders”) are their respective legal shareholders. And the Group’s Fintech Business is also carried out through several domestic operating companies, incorporated in the PRC, namely Beijing Jinweilai Financial Information Services Co., Ltd. (北京金未來金融信息服務有限公司, “Jinweilai”) and its subsidiaries. Those domestic operating companies are collectively defined as the “PRC Operational Entities” thereafter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION (Continued)

Pursuant to applicable PRC laws and regulations, foreign investors are restricted from conducting value-added telecommunications services or holding equity interest in an entity conducting such services in China. In order to enable investments be made into the Group's Game Business and Fintech Business, the Company established a subsidiary, Guangzhou Feidong Software Technology Co., Ltd. (廣州菲動軟件科技有限公司, "Feidong") and New Goround Network Technology (Tianjin) Co.,Ltd. (新谷原信息技術(天津)有限公司, "JLC(WFOE)"), respectively, both of which are a wholly foreign owned enterprise incorporated in the PRC.

Feidong and JLC(WFOE) has entered into a series of contractual arrangements (the "Contractual Arrangements") with the PRC Operational Entities and their respective equity holders, which enable Feidong and JLC(WFOE) and the Company to:

- exercise effective financial and operational control over the PRC Operational Entities;
- exercise equity holders' voting rights of the PRC Operational Entities;
- receive substantially all of the economic interest returns generated by the PRC Operational Entities in consideration for the business support, technical and consulting services provided by Feidong and JLC(WFOE), at Feidong and JLC(WFOE)'s discretion, respectively;
- obtain an irrevocable and exclusive right to purchase the entire equity interest in the PRC Operational Entities from the respective equity holders. The right automatically renews upon expiry until Feidong and JLC(WFOE) specify a renewal term, respectively;
- obtain a pledge over the entire equity interest of the PRC Operational Entities from their respective equity holders as collateral security for all of the PRC Operational Entities' payments due to Feidong and JLC(WFOE), respectively, and to secure performance of the PRC Operational Entities' obligations under the Contractual Arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION (Continued)

The Company does not have any equity interest in the PRC Operational Entities. However, as a result of the Contractual Arrangements, the Company has rights to variable returns from its involvement with the PRC Operational Entities and has the ability to affect those returns through its power over the PRC Operational Entities and is considered to control the PRC Operational Entities. Consequently, the Company regards the PRC Operational Entities as consolidated structured entities under International Financial Reporting Standards (“IFRSs”). The Group has included the financial position and results of the PRC Operational Entities in the consolidated financial statements.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Operational Entities and uncertainties presented by the PRC legal system could impede the Group’s beneficiary rights of the results, assets and liabilities of the PRC Operational Entities. However, the Company believes that the Contractual Arrangements are in compliance with relevant PRC laws and regulations and are legally enforceable.

The financial statements are presented in Renminbi (“RMB”), unless otherwise stated, and have been approved for issue by the Company’s Board of Directors on 27 March 2018.

All companies comprising the Group have adopted 31 December as their financial year end date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable IFRSs. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation (Continued)

2.1.1 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IFRS 12,
- Disclosure initiative – amendments to IFRS 7, and
- Annual Improvements to IFRS Standards 2014-2016 Cycle.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning January 1, 2017. They are relevant to the operations of the Group but have not been early adopted.

		Effective for annual periods beginning on after
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Leases	January 1, 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation (Continued)

2.1.1 Changes in Accounting Policy and Disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(i) IFRS 9, “Financial instruments”

IFRS 9 “Financial instruments” addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

Classification and measurement of financial instruments

- equity instruments currently classified as available-for-sale financial assets (“AFS”) for which a fair value through other comprehensive income (“FVOCI”) election is available; and
- equity investments currently measured at fair value through profit or loss (“FVPL”) which will continue to be measured on the same basis under IFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. For the year ended 31 December 2017, RMB11,500,000 of such gains were recognised in profit or loss in relation to the disposal of available-for-sale financial assets.

There will be no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, while the Group does not have any such liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation (Continued)

2.1.1 Changes in Accounting Policy and Disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(i) IFRS 9, "Financial instruments" (Continued)

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects increase in the loss allowance for loans and receivables to be insignificant.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Early adoption is permitted. The Group does not intend to adopt this standard before its mandatory effective date. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation (Continued)

2.1.1 Changes in Accounting Policy and Disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(ii) IFRS 15, "Revenue from contracts with customers"

IFRS 15 "Revenue from contracts with customers" will replace IAS 18 "Revenue" which covers contracts for goods and services and IAS 11 "Construction contracts" which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. At this stage, the Group does not intend to adopt this standard before its effective date while a modified retrospective approach is expected to be applied upon the adoption.

Management has assessed the effects of applying the new standard on the Group's financial statements and does not expect the new guidance to have a significant effect on revenue recognition except the presentation in balance sheet:

- Presentation of contract assets and contract liabilities in the balance sheet – IFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in some reclassifications as of 1 January 2018 in relation to contract liabilities in relation to expected volume discounts and rights to return which are currently included in other balance sheet line items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation (Continued)

2.1.1 Changes in Accounting Policy and Disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(iii) IFRS 16, “Leases”

IFRS 16, “Leases” addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees.

The Group is a lessee of various properties which are currently classified as operating leases. The Group’s current accounting policy for such leases is set out in Note 2.23 with the Group’s future operating lease commitments, which are not reflected in the consolidated balance sheet, set out in Note 31(b). IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the balance sheet. Instead, almost all leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group’s consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. As for the financial performance impact in the income statement, the operating lease expenses will decrease, while depreciation and amortization and the interest expense will increase. The new standard is not expected to apply until the financial year of 2019. The Group’s future aggregate minimum lease payments under non-cancellable operating leases as at December 31, 2017 are approximately RMB22,349,000, with the minimum lease payments due less than one year amounting to approximately RMB9,207,000, and those due more than one year and less than five years amounting to approximately RMB13,142,000.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive (loss)/income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income/(loss).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive (loss)/income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive (loss)/income are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.2 *Separate Financial Statements*

Investments in subsidiaries (including structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income/(loss) of the subsidiary in the year the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive (loss)/income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income/(loss), and its share of post-acquisition movements in other comprehensive (loss)/income is recognised in other comprehensive (loss)/income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Associates (Continued)

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to “share of loss of investments accounted for using equity method” in the consolidated statement of comprehensive income/(loss).

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group’s financial statements only to the extent of unrelated investor’s interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of comprehensive income/(loss).

2.4 Joint Arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group’s share of the post-acquisition profits or losses and movements in other comprehensive (loss)/income. The Group’s investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group’s share of the net fair value of the joint venture’s identifiable assets and liabilities is accounted for as goodwill. When the Group’s share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group’s net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group’s interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (“CODM”), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.6 Foreign Currency Translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company is the United States dollar (“US\$”). The Company’s primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within the PRC, the directors of the Company have chosen to present the Group’s financial statements in RMB (the presentation currency).

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive (loss)/income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign Currency Translation (Continued)

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income/(loss) are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency exchange differences are recognised in other comprehensive (loss)/income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive (loss)/income.

2.7 Property and Equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property and Equipment (Continued)

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Furniture and office equipment	5 years
– Server and other electric equipment	3-5 years
– Motor vehicles	5 years
– Leasehold improvement	Shorter of remaining term of the lease and the estimated useful lives of the assets

The depreciation method, residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other losses" in the consolidated statement of comprehensive income/(loss).

2.8 Intangible Assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible Assets (Continued)

(b) *Computer software licenses*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, and recorded in amortisation within operating expenses in the consolidated statement of comprehensive income/(loss).

(c) *Game intellectual properties and licenses*

Game intellectual properties and licenses are initially recorded at cost or estimated fair value of intangible assets acquired through business combinations. These intangible assets are amortised on a straight-line basis over their estimate useful lives (ranged from 2 to 5 years).

(d) *Platform, brand name and backlog acquired in a business combination*

Platform, brand name and backlog acquired in a business combination are initially recognised at their fair value at the acquisition date (which is regarded as their cost). These intangible assets are amortised on a straight-line basis over the estimated useful lives, as follows:

- Platform: 5 years
- Brand name: 5 years
- Backlog: 0.4 year

(e) *Research and development expenditures*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the game product so that it will be available for use or sale; (2) management intends to complete the game product and use or sell it; (3) there is an ability to use or sell the game product; (4) it can be demonstrated how the game product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the game product are available; and (6) the expenditure attributable to the game product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. There were no development costs meeting these criteria and capitalised as intangible assets in current period.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their useful lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial Assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial Assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss mainly comprise investments in ordinary shares listed on a stock exchange classified as financial assets held-for-trading. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. As at 31 December 2017, the Group's investment in this category are all classified as non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

(a) *Classification* (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting year. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables", "loan receivables", "other receivables", "short-term deposits", "restricted cash" and "cash and cash equivalents" in the balance sheet (Notes 2.13 and 2.14).

Available-for-sale financial assets

The Group's available-for-sale financial assets comprise non-derivative investments in private funds and some other private companies. The Company designated the investments in this category based on the consideration that they are held for capital appreciation and business strategic purposes. They are included in non-current assets unless management intends to dispose within 12 months after the end of the reporting year.

(b) *Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated statement of comprehensive income/(loss) within "other losses" in the year in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income/(loss) as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognised in other comprehensive (loss)/income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

(b) *Recognition and measurement (continued)*

When securities classified as available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income/(loss) as “gain on disposal of available-for-sale financial assets”.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income/(loss) as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income/(loss) as part of other income when the Group’s right to receive payments is established.

2.11 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.12 Impairment of Financial Assets

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting year whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of Financial Assets (Continued)

(a) *Assets carried at amortised cost* (Continued)

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

— Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The impairment losses are recognised in profit or loss.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of Financial Assets (Continued)

(a) *Assets carried at amortised cost* (Continued)

— **Collective assessment**

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provisions for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provisions for impairment losses upon necessary approval.

(b) *Assets classified as available-for-sale financial assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of comprehensive income/(loss) on equity instruments are not reversed through the consolidated statement of comprehensive income/(loss).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Trade Receivables and Other Receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade receivables and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.10 for further information about the Group's accounting for trade receivables and Note 2.12 for a description of the Group's impairment policies.

2.14 Cash and Cash Equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other financial institutions and short-term highly liquid investments with original maturity of three months or less.

2.15 Share Capital, Share Premium and Shares held for Restricted Share Units Scheme

(a) *Share capital and share premium*

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group purchases the Company's equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Share Capital, Share Premium and Shares held for Restricted Share Units Scheme (Continued)

(b) *Shares held for Restricted Share Units Scheme*

Where the Company's shares are acquired by the Restricted Share Units Scheme Trust (as defined in Note 11a) from the market, the total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as Shares held for Restricted Share Units Scheme and deducted from total equity.

Upon vesting, the related costs of the vested share-based awards purchased from the market are credited to Shares held for Restricted Share Units Scheme, with a corresponding decrease in share-based compensation reserve for the share-based awards.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to Shares held for Restricted Share Units Scheme, and the related fair value of the shares regranted are debited to share-based compensation reserve. The difference between the cost and the fair value of the shares regranted is credited to share premium if the fair value is higher than the costs, or debited against accumulated losses if the fair value is less than the cost.

Upon transfer to the awardees, the related costs of the share-based awards transferred are credited to Shares held for Restricted Share Units Scheme, and the amount that has been previously credited to share-based compensation reserve is reversed. The difference between these two amounts is credited to share premium or debited against accumulated losses.

2.16 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Current and Deferred Income Tax

The income tax expense for the year comprises current and deferred income tax. Income tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive (loss)/income or directly in equity. In this case, the income tax is also recognised in other comprehensive (loss)/income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws, enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Current and Deferred Income Tax (Continued)

(b) *Deferred income tax (Continued)*

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee Benefits

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each year. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Share-based Payments

(a) *Equity-settled share-based payments transactions*

The Group operates the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme, and Restricted Share Units Scheme (as defined in Note 25), which is an equity-settled share-based compensation plan under which share awards are granted to employees as part of their remuneration package.

The fair value of the employee services received in exchange for the grant of the share-based awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share-based awards granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

At the end of each reporting period, the Group revises its estimates of the number of share-based awards that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

(b) *Share-based payments transactions among Group entities*

The grant by the Company of options over its equity instruments to the employees or other service providers of the subsidiaries is treated as a capital contribution. The fair value of consulting and employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries undertakings, with a corresponding credit to equity in the separate financial statements of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue Recognition

The Group is principally engaged in the provision of game development and platform publishing service (“Game Business”) and online wealth management service and internet micro-credit service (“Fintech Business”). Revenues reported in the financial statements are net of value-added tax.

(a) *Game Business revenue*

The Group’s Game Business revenue derived from its game product development services (“Game Product”) revenue and game platform publishing services (“Game Platform”) revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue Recognition (Continued)

(a) Game Business revenue (Continued)

– Game Product

The Group provides Game Product service through game platforms, which are either self-owned or operated by third parties. The Group is responsible for hosting the games, providing on-going updates of new contents, sales of in-game virtual items, technical support for the operations of the games, as well as preventing, detecting and resolving in-game cheating and hacking activities etc.. The platforms are responsible for distribution, marketing, payer authentication and payment collections related to the games.

The Group's games are free-to-play and players can pay for virtual items for better in-game experience. Players purchase game credits ("Paying Players") through the platform's charging system and use the game credits to exchange in-game virtual items. Paying Players usually exchange their game credits for the virtual items shortly after purchases. The monetary value of the virtual items sold is shared between the Group and the platforms, which is pre-determined in revenue sharing arrangements ("Revenue Sharing Arrangements") enacted between the Group with each of the platforms. The platforms collect the payments made by Paying Players and remit the cash to the Group according to the Revenue Sharing Arrangements.

Upon the sales of virtual items, the Group typically has an implied obligation to provide the service which enables the virtual items to be displayed and consumed in the respective games. As a result, the proceeds from the sales of virtual items are initially recorded in deferred revenue and are then recognised as revenue subsequently only when the services have been rendered. For the purposes of determining when services have been rendered to the respective Paying Players, the Group has determined the following:

- i) Consumable virtual items represent items that will be extinguished shortly after consumption by a specific game player action. The Paying Players will not continue to benefit from the virtual items thereafter. Revenue is recognised (as a release from deferred revenue) when the items are consumed.
- ii) Durable virtual items represent items that are accessible and beneficial to Paying Players over an extended period of time. Revenue is recognised ratably over the average playing period of Paying Players ("Player Relationship Period"), which represents the best estimates of the average life of durable virtual items for the applicable game.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue Recognition (Continued)

(a) *Game Business revenue* (Continued)

– **Game Product** (Continued)

The Group determines the Player Relationship Period on a game-by-game and platform-by-platform basis by tracking the player data, such as log-in data and purchase/consumption records. If there is insufficient player data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games of the Group or third-party developers, taking into account the game profile, target audience and its appeal to Paying Players of different demographic groups, until the new game establishes its own history, which is normally up to 12 months after launch. The Group re-assesses such periods semi-annually.

The Group has evaluated the roles and responsibilities in the delivery of game experience to the Paying Players and concluded that the Group takes the primary responsibilities in the Game Product service. The Group is determined to be the primary obligor and reports gross revenue. Due to the fact that the third party platforms may offer various marketing discounts from time to time to Paying Players, the actual prices paid by any individual paying player may be lower than the standard prices of virtual items purchased, with the balance being subsidised by the platforms, accordingly, the Group has to attempt to make a reasonable estimation for the gross revenue amount through tracking third party platforms' marketing activities.

Nevertheless, for the Group's webgames which are published through a large number of domestic third party platforms, since those platforms would offer various market discounts to Paying Players, it is difficult for the Group to make a reasonable estimation for the gross revenue, as such, the Group reports revenue to the extent of the amounts received and receivable from those domestic third party platforms under the Revenue Sharing Arrangements. However, if the Group is able to make a reasonable estimate of the gross revenue for some of webgames published on certain reputable international platforms, such as Facebook, through tracking the data made available from those platforms, the related revenue is recognised on a gross basis.

For the Group's mobile games published through various mobile platforms, the Group can estimate the marketing discounts reliably through tracking the data from those platforms. Accordingly, the Group is able to make a reasonable estimation for the related gross revenues and the revenue shared with those platforms is recognised as cost of revenue.

The Group also derives revenue from licensing and technical support services on a game-by-game basis. Licensing revenue is recognised on a straight-line basis over the respective licensing periods. Technical support revenue is recognised when the services are rendered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue Recognition (Continued)

(a) *Game Business revenue* (Continued)

– **Game Platform**

The Group provides Game Platform service through cooperation with game developers to Paying Players. The Group publishes its self-developed and third party games on its platform. As described in (a) above, the games are free-to-play and players can pay for in-game virtual items for better in-game experience.

The Group's Game Platform revenue mainly derives from Revenue Sharing Arrangements (details described in section (a) above) from game developers. The games published on self-owned platform are hosted, maintained and updated by the game developers, and the Group mainly provides access to the platform and certain basic and limited after-sale technical support to the Paying Players. The Group has evaluated and determined it is not the primary obligor in the services rendered to the Paying Players as a platform. Accordingly, the Group records its revenue, net of the portion of sharing of revenues with the game developers.

The Group believes that it has an implied obligation to the game developers; which corresponds to the implied obligation of the game developers' to provide the services to game players to enable the virtual items to be displayed and consumed/used in the games. Given that games are hosted, managed and administered by the game developers, the Group does not have access to the data relating to the consumption details; as well as the types of virtual items being purchased by the Paying Players. However, the Group maintains individual Paying Player's purchase history of game credits which are used for exchange for virtual items. As such, the Group has adopted a policy to recognise revenues for both consumable and durable items exchanged by game credits over the Player Relationship Period on a game-by-game basis.

The Group determines the Player Relationship Period on a game-by-game basis by tracking the player data, such as log-in data and purchase/consumption records. When the Group publishes a new game, it estimates the Player Relationship Period based on other similar types of games of the Group or third party developers, taking into account the game profile, target audience and its appeal to Paying Players of different demographic groups, until the new game establishes its own history, which is normally up to 12 months after launch. The Group re-assesses such periods semi-annually.

Paying Players make payments through various online and mobile payment channels, which in turn charge handling fees at a certain percentage on the gross purchase amounts. The Group recorded the charges in "cost of revenue".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue Recognition (Continued)

(b) *Fintech Business*

To be more specific, the Group's Fintech Business revenue derived from its online wealth management services and interest income.

– **Online wealth management services**

The Group provides online wealth management platform services by connecting online investors with financial assets providers. The Group charges management fees from financial assets providers on a monthly basis. Revenue from online wealth management services is recognised in the accounting period in which the services are rendered and it is probable that future economic benefits will flow to the Group.

As a kind of customer royalty program, the Group provides cash incentives to online investors. The cash incentives provided are accounted for as reduction of revenue.

– **Interest income**

The Group generates interest income from providing internet micro-credit loans to borrowers. Interest income is recognised and accrued using the effective interest method.

2.22 Government Grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

2.24 Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the year in which the dividends are approved by the Company's shareholders or directors, where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

3.1 Financial Risk Factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group approved by the Board of Directors.

(a) *Market risk*

(i) **Foreign exchange risk**

The Group's PRC subsidiaries are exposed to foreign exchange risk arising from recognised assets and liabilities in foreign currencies, primarily with respect to US\$; as well as from overseas business partners. As at 31 December 2017, the Group's PRC subsidiaries did not have significant exchange risk from the operations as the transactions undertaken with overseas business associates were not substantial.

The Group's holding company and certain overseas subsidiaries' transactions are denominated and settled in their functional currency, US\$. Their net assets are exposed to foreign currency translation risk. For the year ended 31 December 2017, the Group had currency translation losses of RMB 19,632,000 recognised as other comprehensive loss in the consolidated statements of comprehensive income/(loss). Such currency translation differences primarily arose from the translation of the US\$ denominated net assets into the Group's presentation currency RMB. The currency translation losses were mainly attributable to the depreciation of US\$ against RMB during the current period.

The Group does not hedge against any fluctuation in foreign currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial Risk Factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

The Group's interest-bearing assets are mainly loan receivables, short-term deposits and cash and cash equivalents which are mostly in short-term. The Group's cash inflow and interest income would fluctuate with the fluctuation of market interest rate.

The Group does not have any interest-bearing liabilities of borrowings and does not anticipate there is any significant exposure of interest rate risk.

(iii) Price risk

The Group is exposed to price risk because of the Group's certain investments in listed shares are classified as financial assets at fair value through profit or loss and re-measured based on the active stock market price. As at 31 December 2017, the balance is insignificant and the price risk is considered to be low. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short-term deposits, restricted cash, trade receivables, loan receivables and other receivables. The carrying amounts of cash and cash equivalents, short-term deposits, restricted cash, trade receivables, loan receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage this risk arising from cash and cash equivalents, short-term deposits and restricted cash, the Group only transacts with state-owned or reputable financial institutions in the PRC and reputable international financial institution outside of the PRC. There has been no recent history of default in relation to these financial institutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial Risk Factors (Continued)

(b) Credit risk (Continued)

For loan receivables, in order to minimise the credit risk, the Group has established policies and systems for monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow up action is taken to recover overdue debts. In addition, management reviews the recoverable amounts of loan and interest collectively at each reporting date to ensure that adequate allowance for impairment losses are made for irrecoverable amounts.

For trade receivables, a significant portion of trade receivables at the end of the year was due from game platforms and assets providers. If the strategic relationship with the platforms and assets providers is terminated or scaled-back; or if the platforms and assets providers alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's receivables might be adversely affected in terms of recoverability. To manage this risk, the Group assesses the credit quality of the platforms and assets providers, taking into account their financial position, past trading and payment experience and other factors. See Note 19 for further disclosure on credit risk.

Concentration of credit risk reflects the sensitivity of the Group's operating results to a particular customer, industry or geographic location. As a significant portion of online wealth management services revenue of the Group for the year ended 31 December 2017 was attributable to one assets provider, a certain level of concentration risk exists for its online wealth management services.

For other receivables, management make periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial Risk Factors (Continued)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's non-derivative financial liabilities that will be settled on a net basis into relevant maturity Grouping based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	Less than 3 Months RMB' 000	Between 3 Months and 1 year RMB' 000
As at 31 December 2017		
Trade payables	34,169	—
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	<u>218,701</u>	<u>—</u>
As at 31 December 2016		
Trade payables	26,652	—
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	<u>40,479</u>	<u>—</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital (including share capital and premium, capital reserves) by regularly reviewing the capital structure. As a part of this review, the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares.

3.3 Fair Value Estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair Value Estimation (Continued)

The following table presents the Group's assets that are measured at fair value as at 31 December 2017.

	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	Total RMB' 000
Recurring Fair Value Measurements:				
Assets:				
Financial assets at fair value through profit or loss	—	—	—	—
Available-for-sale financial assets	—	—	15,312	15,312
	<u>—</u>	<u>—</u>	<u>15,312</u>	<u>15,312</u>

The following table presents the Group's assets that are measured at fair value as at 31 December 2016.

	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	Total RMB' 000
Recurring Fair Value Measurements:				
Assets:				
Financial assets at fair value through profit or loss	1,470	—	318,452	319,922
Available-for-sale financial assets	—	—	23,150	23,150
	<u>1,470</u>	<u>—</u>	<u>341,602</u>	<u>343,072</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair Value Estimation (Continued)

(a) *Financial instrument in level 1*

The fair value of financial instruments traded in active markets is determined based on quoted market prices at each reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) *Financial instrument in level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair Value Estimation (Continued)

(c) Financial instrument in level 3

The changes in level 3 instruments for the years ended 31 December 2017 and 2016 are presented in Notes 17 and 18.

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

(RMB in thousands)

Description	Fair value at 31/12/2017	Valuation technique(s)	Unobservable input	Range (weighted average)
Equity securities:				
Available-for-sale financial assets	15,312	Discounted cash flow	weighted average cost of capital	32.2%-32.5% (32.4%)
			long-term revenue growth rate	3% (3%)
			long-term pre-tax operating margin	0%-6% (3%)
Financial assets at fair value through profit or loss	—	Market comparable companies	revenue multiple	3.6 (3.6)

Except for the financial assets at fair value through profit or loss and available-for-sale financial assets, the carrying amounts of financial assets including cash and cash equivalents, short-term deposits, restricted cash, trade receivables, loan receivables and other receivables; and financial liabilities including trade payables, and other payables and accruals, approximate their respective fair value due to their short maturity at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Estimates of Player Relationship Period in the Group's Game Business*

As described in Note 2.21, the Group recognises revenue from durable virtual items in Game Product and from both durable and consumable items in Game Platform ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

(b) *Income tax*

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.1 Critical Accounting Estimates and Assumptions (Continued)

(c) *Recognition of deferred tax assets*

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary difference is related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

Significant items on which the Group has exercised accounting judgment include recognition of deferred tax assets in respect of tax losses. Recognition of the deferred tax assets involves judgment regarding the future financial performance of the Group.

Were the actual final outcome (on the judgment areas) different from the management's estimates, such difference would impact the recognition of deferred tax assets and income tax expenses in the period in which such estimate is changed.

(d) *Fair value of financial instruments that are not traded in an active market*

The fair value of financial instruments that are not traded in an active market (for example, the Group's available-for-sale financial assets and financial assets at fair value through profit or loss) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on investees' performance and conditions existing at the end of each reporting period. Details of the judgement and assumptions have been disclosed in Note 3.3 (c).

(e) *The fair value of identifiable intangible assets arising from business combination*

The Group performed a purchase price allocation exercise in the business combination (refer to Note 32), and recognised identifiable intangible assets of brand name, platform and backlog amounting to RMB191,500,000 in total at the acquisition date. The valuation of the fair value of such identifiable intangible assets involved complex valuation methodology and significant estimates including revenue growth rates, estimated useful lives of the intangible assets and the discount rate.

(f) *Impairment assessment of goodwill*

Determining whether goodwill is impaired requires an estimation of the recoverable amount of cash-generating units ("CGU") to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The calculation requires the Group to estimate the future cash flows expected to arise from CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss/ further impairment loss may arise. As at 31 December 2017, the carrying amount of goodwill is RMB205,883,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.2 Critical Judgments in Applying the Group's Accounting Policies

(a) *Revenue presentation and recognition*

Revenue presentation for webgames

For revenues relating to webgames developed by the Group which are published on domestic third party platforms, as described in Note 2.21, there are circumstances that the Group is unable to make a reasonable estimate of the gross revenue because the domestic third party platforms have discretions in determining the actual price of the virtual items to be purchased by the Paying Players and in offering discounts. Accordingly, such revenue is recognised based on the net amount received from the third party platforms. However, if the Group is able to make a reasonable estimate of the gross revenue for some of the webgames published on certain overseas third party platforms, such as Facebook, through tracking the data made available from the platforms, the related revenue is recognised on a gross basis.

Revenue presentation for mobile games

For revenues relating to mobile games developed by the Group which are published on third party platforms, the Group is able to make a reasonable estimation for the gross revenue because the Group can estimate the marketing discounts reliably through tracking the data available from various mobile platforms and mobile telecommunication operators. Accordingly, such revenue is recognised on a gross basis.

(b) *Impairment assessment of available-for-sale equity investments*

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

For the year ended 31 December 2017, the Group recognised an aggregate impairment loss of RMB6,540,000 against the carrying amounts of certain investments due to prolonged decline in their assessed fair values (Note 18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.2 Critical Judgments in Applying the Group's Accounting Policies (Continued)

(c) *Impairment assessment of loan receivables*

The Group adopts an individual impairment assessment approach for individually significant loans; and a collective impairment assessment approach for loans not individually significant or not individually impaired. As at 31 December 2017, all of the Group's loans were not individually significant or individually impaired, the Group adopted a collective impairment assessment approach for the Group's loans. Under the collective approach, assessment of future cash flows for loan portfolios is based on historical loss rates of both the Group and other comparable companies in the industry, taking into consideration the impact from changes of and uncertainties in the macro-economic environment. The impairment assessment of loan receivables require the use of significant estimates by management. Where the actual loss rate is different from the estimated loss rate such difference will impact the provision for impairment losses in the period in which such estimate has been made.

5 SEGMENT INFORMATION

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the Chief Operating Decision Maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company that make strategic decisions. In December 2016, the Group obtained a license to carry out internet micro-credit business from the government and subsequently commenced the operation of the Group's Fintech Business in the PRC. During the year of 2017, the Fintech Business has been expanding and management has concluded that this segment should be separately reported and the comparatives have been restated. As a result, the Group has identified the following operating segments from service perspective:

- Game Business
- Fintech Business

The CODM assesses the performance of the operating segments mainly based on segment revenue, and adjusted earnings/(losses) before interest expense, taxes, depreciation and amortisation ("adjusted EBITDA") excluding gain on dilution of investments accounted for using the equity method and share of income of investments accounted for using the equity method, of each operating segment.

Specifically, the revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. In addition, adjusted EBITDA excludes the effects of significant items of income and expenditure which may have an impact on the assessment of operating segments' results such as changes in the value of financial assets at fair value through profit or loss, gain on disposal of investment in an associate, gain on disposal of available-for-sale financial assets, non-recurring event such as impairment of investment in associates and impairment of available-for-sale financial assets. It also excludes the effects of equity-settled share-based payments. Net interest income is not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

The segment information provided to the Group's CODM for the reportable segments for the years ended 31 December 2017 and 2016 is as follows:

	Year Ended 31 December	
	2017 RMB'000	2016 RMB'000
Revenue		
Game Business	183,447	361,564
Fintech Business	163,019	—
Total	346,466	361,564
Adjusted EBITDA		
Game Business	15,840	(213,767)
Fintech Business	31,871	—
Share of income of investments accounted for using the equity method	10,850	2,047
Gain on dilution of investments accounted for using the equity method	—	3,907
Total adjusted EBITDA	58,561	(207,813)
Adjusted EBITDA reconciles to profit/(loss) before income tax as follows:		
Total adjusted EBITDA	58,561	(207,813)
Share-based compensation	(14,889)	(16,272)
Changes in the value of financial assets at fair value through profit or loss	(5,889)	(9,791)
Impairment of investment in associates	—	(22,219)
Impairment of available-for-sale financial assets	(6,540)	(108,063)
Gain on disposal of investment in an associate	62,576	—
Gain on disposal of available-for-sale financial assets	11,500	—
Depreciation and amortisation	(40,473)	(34,556)
Net interest income	8,297	15,700
Profit/(loss) before income tax	73,143	(383,014)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC. The segment revenue provided to the Group's CODM for the PRC (excluding Hong Kong) and other regions for the years ended 31 December 2017 and 2016 is as follows:

	Year Ended 31 December 2017		
	PRC (Excluding Hong Kong) RMB' 000	Other Regions RMB' 000	Total RMB' 000
Segment revenue	<u>261,170</u>	<u>85,296</u>	<u>346,466</u>

	Year Ended 31 December 2016		
	PRC (Excluding Hong Kong) RMB' 000	Other Regions RMB' 000	Total RMB' 000
Segment revenue	<u>314,451</u>	<u>47,113</u>	<u>361,564</u>

A breakdown of revenue derived from different forms for years ended 31 December 2017 and 2016 is as follows:

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
– Game Business	<u>183,447</u>	361,564
– Online wealth management service	<u>109,526</u>	—
– Interest income	<u>53,493</u>	—
	<u><u>346,466</u></u>	<u><u>361,564</u></u>

Revenues of approximately RMB97,066,000 (2016: Nil) are derived from a single external customer. These revenues are attributed to the Fintech Business segment.

As at 31 December 2017 and 2016, majority of the non-current assets of the Group were located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 EXPENSES BY NATURE

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Employee benefit expenses (Note 9)	120,697	138,975
Content cost, distribution cost and other outsourcing expenses	70,617	252,846
Promotion and advertising expenses	41,331	78,353
Amortisation of intangible assets (Note 15)	36,397	22,787
Payment handling fees	17,679	—
Professional fees	14,027	7,966
Bandwidth and server custody fees	11,138	13,596
Operating lease rentals in respect of office buildings	7,747	10,812
Travelling and entertainment expenses	7,447	7,938
Auditor's remuneration		
– Audit services	5,000	4,500
– Non-audit services	3,668	1,004
Depreciation of property and equipment (Note 14)	4,076	11,769
Impairment loss on loan receivables (Note 20)	3,510	—
Impairment loss on trade receivables (Note 19)	1,217	15,699
Impairment loss on prepayments and other receivables (Note 21)	170	19,815
Legal claim	500	2,000
Others	5,102	8,234
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	350,323	596,294

7 OTHER INCOME

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Interest income (Note a)	2,913	6,999
Government grants (Note b)	4,788	4,788
	7,701	11,787

(a) Interest income mainly represents interest income arising from cash and cash equivalents.

(b) Government grants primarily comprised cash subsidies from local government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 OTHER LOSSES

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Changes in the value of financial assets at fair value through profit or loss (Note 17)	5,889	9,791
Loss on disposal of property and equipment (Note 30(a))	1,245	3,400
Exchange losses, net	2,260	1,055
	<u>9,394</u>	<u>14,246</u>

9 EMPLOYEE BENEFIT EXPENSES

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Wages, salaries and bonuses	89,408	103,183
Pension costs – defined contribution plans	4,695	4,822
Social security costs, housing benefits and other employee benefits	11,705	14,698
Share-based compensation expenses (Note 25)	14,889	16,272
	<u>120,697</u>	<u>138,975</u>

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two (2016: two) directors whose emoluments are reflected in the analysis shown in Note 37. The emoluments payable to the remaining three (2016: three) individuals during the year ended 31 December 2017 are as follows:

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Wages, salaries and bonuses	5,857	5,802
Pension costs – defined contribution plans	20	20
Social security costs, housing benefits and other employee benefits	352	46
Share-based compensation expenses	6,892	7,286
	<u>13,121</u>	<u>13,154</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Five highest paid individuals (Continued)

The emoluments of these individuals fell within the following bands:

Emolument bands	Year Ended 31 December	
	2017	2016
HK\$2,000,001 - HK\$2,500,000	—	1
HK\$2,500,001 - HK\$3,000,000	1	—
HK\$3,000,001 - HK\$3,500,000	—	1
HK\$5,000,001 - HK\$5,500,000	1	—
HK\$7,500,001 - HK\$8,000,000	1	—
HK\$8,000,001 - HK\$8,500,000	—	1
	3	3

10 FINANCE INCOME - NET

	Year Ended 31 December	
	2017	2016
	RMB'000	RMB'000
Interest income on short-term deposits and others	5,384	8,701

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11a SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of the principal subsidiaries (including structured entities) as at 31 December 2017:

Company Name	Kind of Legal Entity	Country and Date of Incorporation/ Establishment	Issued and Fully Paid Share Capital/ Registered Capital	Equity Interest Held	Principal Activities and Place of Operation
Directly held by the Company					
Foga Tech Limited ("Foga Tech")	Limited liability company	Hong Kong/ 9 August 2011	HK\$1	100%	Investment holding, operation of webgames and mobile games, Hong Kong
Forgame US Corporation ("Forgame US")	Limited liability company	United States of America ("US")/ 25 February 2014	US\$100	100%	Development and operation of mobile games, the US
Madgame Investment Limited ("Madgame")	Limited liability company	British Virgin Islands/ 13 March 2014	US\$100	70%	Investment holding, BVI
Mutant Box Limited ("Mutant Box")	Limited liability company	Hong Kong/ 31 August 2015	HK\$100	70%	Operation of webgames and mobile games, Hong Kong
Mutant Box Interactive Limited ("Mutant Box Interactive")	Limited liability company	The United Kingdom/ 24 September 2015	US\$1,000	70%	Operation of webgames and mobile games, The United Kingdom
Foga Investment Co., Limited ("Investment")	Limited liability company	British Virgin Islands/ 27 January 2014	US\$1	100%	Investment holding, BVI
Jlc Inc. ("Jlc Inc.")	Limited liability company	Cayman/ 17 November 2016	US\$10,000	55%	Investment holding, Cayman
Jianlc (HK) Limited, ("JLC (HK)")	Limited liability company	Hong Kong/ 25 November 2016	HK\$0.01	55%	Investment holding, Hong Kong

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11a SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Continued)

Company Name	Kind of Legal Entity	Country and Date of Incorporation/ Establishment	Issued and Fully Paid Share Capital/ Registered Capital	Equity Interest Held	Principal Activities and Place of Operation
Indirectly held by the Company					
Hong Kong Ledong Tech Limited ("Ledong")	Limited liability company	Hong Kong/ 22 March 2012	HK\$10,000	100%	Investment holding and operation of webgames, Hong Kong
Forgame International Co., Ltd. (雲遊股份有限公司) ("Yunyou")	Limited liability company	Taiwan/ 11 October 2013	New Taiwan dollars ("NT\$") 15,000,000	100%	Development of webgames and mobile games, technology services, Taiwan
Guangzhou Feidong Software Technology Co., Ltd. (廣州菲動軟件科技有限公司) ("Feidong")	Limited liability company	the PRC/ 13 June 2012	US\$15,000,000	100%	Software development and provision of information technology services, the PRC
Guangzhou Feiyin Information Technology Co., Ltd. (廣州菲音信息科技有限公司) ("Feiyin")*	Limited liability company	the PRC/ 12 April 2004	RMB10,000,000	100%	Development of webgames and mobile games, the PRC
Guangzhou Weidong Internet Technology Co., Ltd. (廣州維動網絡科技有限公司) ("Weidong")*	Limited liability company	the PRC/ 22 January 2007	RMB10,000,000	100%	Development and operation of webgames and mobile games, the PRC
Guangzhou Jieyou Software Co., Ltd. (廣州捷遊軟件有限公司) ("Jieyou")*	Limited liability company	the PRC/ 7 June 2012	RMB10,000,000	100%	Development and operation of webgames and mobile games, the PRC
Guangzhou Yunmi Software Co., Ltd. (廣州市雲米軟件科技有限公司) ("Yunmi")	Limited liability company	the PRC/ 6 January 2015	RMB100,000	100%	Software development and provision of information technology services, the PRC
Jiujiang Yunke Internet Microfinance Co., Ltd. (九江市雲客網絡小額貸款有限公司) ("Yunke")*	Limited liability company	the PRC/ 15 December 2016	RMB200,000,000	100%	Micro-credit services, the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11a SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Continued)

Company Name	Kind of Legal Entity	Country and Date of Incorporation/ Establishment	Issued and Fully Paid Share Capital/ Registered Capital	Equity Interest Held	Principal Activities and Place of Operation
Indirectly held by the Company (Continued)					
Pingxiang Yunke Technology Co., Ltd. (萍鄉市雲客科技有限公司) ("Pingxiang yunke") *	Limited liability company	the PRC/ 6 July 2017	RMB100,000,000	100%	Provision of information technology services, the PRC
Beijing Jinweilai Financial Information Services Co., Ltd. (北京金未來金融信息服務有限公司) ("Jinweilai") *	Limited liability company	the PRC/ 16 October 2014	RMB10,000,000	55%	Provision of finance information technology services, the PRC
Beijing Lajin Investment Fund Management Co., Ltd. (北京來金投資基金管理有限公司) ("Lajin") *	Limited liability company	the PRC/ 16 March 2015	RMB50,000,000	55%	Provision of investment consulting services, the PRC
Beijing Weilajin Asset Management Co., Ltd. (北京未來金資產管理有限公司) ("Weilajin") *	Limited liability company	the PRC/ 20 January 2016	RMB10,000,000	55%	Provision of finance consulting services and technology services, the PRC
Jin Weilai (Guangzhou) Investment Consultancy Co., Ltd. (金未來(廣州)投資諮詢有限公司) ("Jinweilai Guangzhou") *	Limited liability company	the PRC/ 6 July 2017	RMB1,000,000	55%	Provision of management consulting and investment consulting, the PRC
New Goround Network Technology (Tianjin) Co., Ltd (新谷原信息技術(天津)有限公司) ("JLC(WFOE)")	Limited liability company	the PRC/ 27 June 2017	US\$1,000,000	55%	Software development and provision of information technology services, the PRC

* These companies are the Group's consolidated structured entities.

The English names of certain companies referred herein represent management's best effort at translating the Chinese names of these companies as no English name has been registered.

The Company has set up a structured entity ("Restricted Share Units Scheme Trust") solely for the purpose of purchasing, administering and holding the Company's shares for the Restricted Share Units Scheme (Note 25(c)), the Company has the power to direct the relevant activities of the Restricted Share Units Scheme Trust and it has the ability to use its power over the Restricted Share Units Scheme Trust to affect its exposure to returns. Therefore, the assets and liabilities of the Restricted Share Units Scheme Trust are included in the Group's balance sheet and the shares it held are presented as a deduction in equity as Shares held for Restricted Share Units Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11b INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amounts of the investments in the consolidated balance sheet are as follows:

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
Associates	12,057	23,582

The amounts recognised in the consolidated statement of comprehensive income/(loss) are as follows:

	Year ended 31 December	
	2017 RMB' 000	2016 RMB' 000
At beginning of year	23,582	43,857
Additions	—	30
Share of income of associates	10,850	2,047
Converted from investment in a joint venture	—	2,429
Gain on dilution of interest in associates	—	1,478
Disposal of an associate (Note (i))	(22,375)	—
Impairment charges	—	(26,259)
At end of year	12,057	23,582

The investees are principally engaged in internet related business. The Group has significant influence over the investees with equity interests ranging from 12.25% to 40% and classified the investments as associates.

- (i) On 24 May 2017, the Group entered into the equity transfer agreement with Hunan Tianrun Digital Entertainment Culture Media Company Limited (湖南天潤數字娛樂文化傳媒股份有限公司) ("Hunan Tianrun"), an A share listed company. Pursuant to the agreement, the Group agreed to dispose of 20% of equity interest in Beijing Hongruan Xiechuang Communication and Technology Co., Ltd. (北京虹軟協創通訊技術有限公司, "Beijing Hongruan") at a consideration of RMB87,500,000. The transaction was completed on 15 November 2017. The carrying amount of investment in Beijing Hongruan was RMB22,375,000 as at the disposal date and the Group recognised gain on disposal of investment in an associate amounted to RMB62,576,000 for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 INCOME TAX EXPENSE

The income tax expense of the Group for the years ended 31 December 2017 and 2016 are analysed as follows:

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Current income tax:		
– PRC and oversea enterprise income tax	10,029	792
Deferred income tax:		
– Decrease in deferred tax assets (Note 29)	608	12,686
– Decrease in deferred tax liabilities (Note 29)	(6,142)	—
Income tax expense	4,495	13,478

The tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profits/(losses) of the consolidated entities as follows:

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Profit/(loss) before income tax	73,143	(383,014)
Tax calculated at statutory income tax rates applicable to profits/ (losses) of the consolidated entities in their respective jurisdictions	15,417	(91,046)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	(6,895)	33,395
Reversal of previously recognised tax losses and timing differences	—	12,686
Utilization of previously unrecognised tax losses	(16,025)	—
Tax losses and timing differences for which no deferred income tax asset was recognised	7,326	49,736
Tax losses for which deferred income tax asset was recognised	(524)	—
Super deduction of research and development expenses	(1,656)	(1,737)
Expenses not deducted for income tax purposes:		
– Share-based compensation	2,315	2,317
– Others	4,537	8,127
Income tax expense	4,495	13,478

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 INCOME TAX EXPENSE (Continued)

(a) Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) Hong Kong profits tax

Hong Kong profits tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the year ended 31 December 2017 (2016: Nil).

(c) Taiwan business income tax

Yunyou is incorporated in Taiwan, and the business income tax rate is 17% for the year ended 31 December 2017 (2016: 17%).

(d) PRC enterprise income tax (“EIT”)

The income tax provision of the Group in respect of operations in the PRC was calculated at the tax rate of 25% on the assessable profits for the year ended 31 December 2017 (2016: 25%), based on the existing legislation, interpretations and practices in respect thereof.

Weidong and Feiyin have renewed their qualification of “High and New Technology Enterprises” (“HNTEs”) under the EIT Law in 2016. Accordingly, they were entitled to a preferential income tax rate of 15% for a 3-year period, and the applicable tax rate was 15% for the year ended 31 December 2017 (2016: 15%).

Feidong and Jieyou were qualified as HNTEs under the EIT Law in 2014 and their qualifications were expired in 2016. Feidong has renewed its qualification of HNTEs in 2017, thus the applicable tax rate of Feidong was 15% for the year ended 31 December 2017 (2016: 12.5%), while Jieyou was failed to sustain its qualification of HNTEs in 2017 and hence the applicable tax rate of Jieyou was 25% for the year ended 31 December 2017 (2016: 12.5%).

Jinweilai was also qualified as HNTE under EIT Law in 2017. Accordingly, it was entitled to a preferential income tax rate for a 3-year period, and the applicable tax was 15% for the year ended 31 December 2017.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that became effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits during the years ended 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 INCOME TAX EXPENSE (Continued)

(e) PRC withholding tax (“WHT”)

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

As at 31 December 2017, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as at 31 December 2017.

(f) Tax credit relating to components of other comprehensive (loss)/income

The tax credit relating to components of other comprehensive (loss)/income during the year is as follows:

	2017			2016		
	Before tax RMB' 000	Tax credit RMB' 000	After tax RMB' 000	Before tax RMB' 000	Tax credit RMB' 000	After tax RMB' 000
Fair value losses on available- for-sale financial assets	(298)	45	(253)	(5,202)	780	(4,422)
Currency translation differences	(19,632)	—	(19,632)	35,783	—	35,783
Other comprehensive (loss)/income	(19,930)	45	(19,885)	30,581	780	31,361
Current tax	—	—	—	—	—	—
Deferred tax (Note 29)	—	45	45	—	780	780
		45			780	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 EARNING/(LOSS) PER SHARE

(a) Basic

Basic earning/(loss) per share is calculated by dividing the profit/(loss) of the Group attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year Ended 31 December	
	2017	2016
Profit/(loss) attributable to owners of the Company (RMB' 000)	74,035	(395,174)
Weighted average number of ordinary shares in issue	137,507,309	136,806,927
Basic earning/(loss) per share (in RMB/share)	0.54	(2.89)

(b) Diluted

For the year ended 31 December 2017, the Company had three categories of dilutive potential ordinary shares, share options granted to employees under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and restricted share units granted to employees under Restricted Share Units Scheme. Diluted earning/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted earning/(loss) per share). No adjustment is made to earnings (numerator).

	Year Ended 31 December	
	2017	2016
Profit/(loss) attributable to owners of the Company (RMB' 000)	74,035	(395,174)
Weighted average number of ordinary shares in issue	137,507,309	136,806,927
Adjustments for share options under Pre-IPO Share Option Scheme	757,512	—
Adjustments for awarded shares under Restricted Share Units Scheme	1,444,626	—
Weighted average number of ordinary shares for the calculation of diluted earning/(loss) per share	139,709,447	136,806,927
Diluted earning/(loss) per share (in RMB/share)	0.53	(2.89)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 PROPERTY AND EQUIPMENT

	Furniture and Office Equipment RMB' 000	Servers and Other Equipment RMB' 000	Motor Vehicles RMB' 000	Leasehold Improvement RMB' 000	Total RMB' 000
At 1 January 2016					
Cost	7,684	42,186	2,707	22,510	75,087
Accumulated depreciation	(3,480)	(27,929)	(1,561)	(15,920)	(48,890)
Net book amount	<u>4,204</u>	<u>14,257</u>	<u>1,146</u>	<u>6,590</u>	<u>26,197</u>
Year ended 31 December 2016					
Opening net book amount	4,204	14,257	1,146	6,590	26,197
Additions	415	134	—	422	971
Disposals	(1,486)	(3,265)	—	—	(4,751)
Depreciation charge	(1,379)	(5,458)	(525)	(4,407)	(11,769)
Impairment charge	—	—	—	(2,459)	(2,459)
Currency translation difference	9	13	—	6	28
Closing net book amount	<u>1,763</u>	<u>5,681</u>	<u>621</u>	<u>152</u>	<u>8,217</u>
At 31 December 2016					
Cost	4,888	24,435	2,707	22,610	54,640
Accumulated depreciation	(3,125)	(18,754)	(2,086)	(19,999)	(43,964)
Impairment charge	—	—	—	(2,459)	(2,459)
Net book amount	<u>1,763</u>	<u>5,681</u>	<u>621</u>	<u>152</u>	<u>8,217</u>
Year ended 31 December 2017					
Opening net book amount	<u>1,763</u>	<u>5,681</u>	<u>621</u>	<u>152</u>	<u>8,217</u>
Acquisition of a subsidiary (Note 32)	342	147	—	—	489
Additions	974	349	—	4,484	5,807
Disposals	(277)	(1,595)	—	—	(1,872)
Depreciation charge	(695)	(2,400)	(384)	(597)	(4,076)
Closing net book amount	<u>2,107</u>	<u>2,182</u>	<u>237</u>	<u>4,039</u>	<u>8,565</u>
At 31 December 2017					
Cost	5,096	15,654	2,706	17,301	40,757
Accumulated depreciation	(2,989)	(13,472)	(2,469)	(13,262)	(32,192)
Impairment charge	—	—	—	—	—
Net book amount	<u>2,107</u>	<u>2,182</u>	<u>237</u>	<u>4,039</u>	<u>8,565</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 PROPERTY AND EQUIPMENT (Continued)

Depreciation charges were included in the following categories in the profit or loss:

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Cost of revenue	2,504	5,973
Administrative expenses	1,226	2,284
Research and development expenses	288	3,202
Selling and marketing expenses	58	310
	<u>4,076</u>	<u>11,769</u>

15 INTANGIBLE ASSETS

	Game Intellectual Properties and Licenses RMB' 000	Computer Software Licenses RMB' 000	Goodwill RMB' 000	Platform RMB' 000	Brand Name RMB' 000	Backlog RMB' 000	Total RMB' 000
At 1 January 2016							
Cost	101,597	11,859	1,586	—	—	—	115,042
Accumulated amortisation	(47,626)	(2,913)	—	—	—	—	(50,539)
Impairment of intangible assets	(5,853)	—	—	—	—	—	(5,853)
Net book amount	<u>48,118</u>	<u>8,946</u>	<u>1,586</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>58,650</u>
Year ended 31 December 2016							
Opening net book amount	48,118	8,946	1,586	—	—	—	58,650
Additions	9,896	13	—	—	—	—	9,909
Disposal of a subsidiary	(778)	—	—	—	—	—	(778)
Amortisation charge	(21,253)	(1,534)	—	—	—	—	(22,787)
Impairment of intangible assets	(26,153)	—	(1,586)	—	—	—	(27,739)
Currency translation difference	122	4	—	—	—	—	126
Closing net book amount	<u>9,952</u>	<u>7,429</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>17,381</u>
At 31 December 2016							
Cost	80,921	11,658	1,586	—	—	—	94,165
Accumulated amortisation	(38,667)	(4,229)	—	—	—	—	(42,896)
Impairment of intangible assets	(32,302)	—	(1,586)	—	—	—	(33,888)
Net book amount	<u>9,952</u>	<u>7,429</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>17,381</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INTANGIBLE ASSETS (Continued)

	Game Intellectual Properties and Licenses RMB' 000	Computer Software Licenses RMB' 000	Goodwill RMB' 000	Platform RMB' 000	Brand Name RMB' 000	Backlog RMB' 000	Total RMB' 000
Year ended 31 December 2017							
Opening net book amount	9,952	7,429	—	—	—	—	17,381
Acquisition of a subsidiary (Note 32)	2,915	202	205,883	138,200	37,200	16,100	400,500
Additions	—	189	—	—	—	—	189
Amortisation charge	(4,450)	(1,230)	—	(11,517)	(3,100)	(16,100)	(36,397)
Impairment of intangible assets	(5,077)	—	—	—	—	—	(5,077)
Currency translation difference	—	—	—	—	—	—	—
Closing net book amount	<u>3,340</u>	<u>6,590</u>	<u>205,883</u>	<u>126,683</u>	<u>34,100</u>	<u>—</u>	<u>376,596</u>
At 31 December 2017							
Cost	78,496	10,886	207,469	138,200	37,200	16,100	488,351
Accumulated amortisation	(38,110)	(4,296)	—	(11,517)	(3,100)	(16,100)	(73,123)
Impairment of intangible assets	(37,046)	—	(1,586)	—	—	—	(38,632)
Net book amount	<u>3,340</u>	<u>6,590</u>	<u>205,883</u>	<u>126,683</u>	<u>34,100</u>	<u>—</u>	<u>376,596</u>

Amortisation charges were included in the following categories in the profit or loss:

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Cost of revenue	16,136	11,051
Selling and marketing expenses	17,987	1,354
Administrative expenses	924	925
Research and development expenses	1,350	9,457
	<u>36,397</u>	<u>22,787</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INTANGIBLE ASSETS (Continued)

Impairment of goodwill

Goodwill arises from the Group's acquisition of Jlc Inc. and was determined at the acquisition date of 16 August 2017, being the difference between the purchase consideration and the fair value of net identifiable assets of Jlc Inc.. Goodwill has been primarily allocated to the CGUs of Jlc Inc. for impairment testing.

The recoverable amount of a CGUs is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Management determined a projection period of five years based on expected development trend of Jlc Inc. and industry experiences. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates stated below. The growth rate does not exceed the long-term average growth rate for the Fintech Business in which the CGUs operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant industry.

The key assumptions used for value-in-use calculations are as follows:

	Year Ended 31 December 2017
Terminal growth rate after 5 years	3.0%
Pre-tax discount rate	28.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2017	2016
	RMB' 000	RMB' 000
Assets as per balance sheet		
Loans and receivables:		
– Loan receivables	231,742	—
– Trade receivables	40,249	40,480
– Other receivables (excluding prepayments)	140,566	7,057
– Restricted cash	751	807
– Short-term deposits	34,650	448,997
– Cash and cash equivalents	654,915	267,986
Financial assets at fair value through profit or loss	—	319,922
Available-for-sale financial assets	15,312	23,150
	<u>1,118,185</u>	<u>1,108,399</u>
Liabilities as per balance sheet		
Financial liabilities at amortised cost		
– Trade payables	34,169	26,652
– Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	218,701	40,479
	<u>252,870</u>	<u>67,131</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Listed securities	—	1,470
Unlisted securities	—	318,452
	<u>—</u>	<u>319,922</u>
At 1 January	319,922	15,651
Additions	—	300,488
Cancellation of the convertible bonds as purchase consideration in acquisition of 55% equity interest in Jlc Inc. (Note 32)	(302,621)	—
Changes in fair value (Note 8)	(5,889)	(9,791)
Currency translation differences	(11,412)	13,574
	<u>—</u>	<u>319,922</u>
At 31 December, all non-current		
Total losses for the year included in profit or loss for assets held at the end of the year, under “Other losses”	(5,889)	(9,791)
Change in unrealised losses for the year included in profit or loss for assets held at the end of the year	(5,889)	(9,791)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
At 1 January	23,150	122,255
Additions (a)	10,000	14,160
Disposals (b)	(11,000)	—
Change in fair value (c)	(298)	(5,202)
Impairment loss (c)	(6,540)	(108,063)
At 31 December	15,312	23,150

- (a) On 25 February 2017, the Group made an investment of RMB10,000,000 on Beijing Weiju Future Technology Limited (北京微聚未來科技有限公司) to acquire 10% of its shares.
- (b) For the year ended 31 December 2017, the Group disposed of two investments and recorded net gain of RMB11,500,000.
- (c) Taking into account of the challenging and competitive market conditions and rapid changes in the game industry, directors of the Company performed an assessment on the fair values of its investments in available-for-sale financial assets with discounted cash flow analysis and made an impairment provision of RMB6,838,000 (2016: RMB113,265,000) against their carrying amounts RMB6,540,000 (2016: RMB108,063,000) as impairment loss and RMB298,000 (2016: RMB5,202,000) was accounted for as fair value change in other comprehensive (loss)/income.

In determining the fair value of the available-for-sale financial assets, key assumptions including the investees' long-term revenue growth rates, long-term pre-tax operating margin, and the discount rate, were adopted by management with their best estimate. Details of the key assumption were disclosed in Note 3.3(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 TRADE RECEIVABLES

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
Third parties	54,979	62,217
Related parties (Note 33(b))	1,673	1,919
	<u>56,652</u>	<u>64,136</u>
Less: provision for impairment	(16,403)	(23,656)
	<u>40,249</u>	<u>40,480</u>

As at 31 December 2017 and 2016, the fair values of trade receivables were approximately similar to their carrying amounts.

- (a) Aging analysis based on recognition date of the gross trade receivables at the respective balance sheet dates is as follows:

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
0-30 days	21,722	11,055
31-60 days	3,920	7,052
61-90 days	6,841	5,623
91-180 days	2,943	12,030
181-365 days	3,338	11,262
Over 1 year	17,888	17,114
	<u>56,652</u>	<u>64,136</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 TRADE RECEIVABLES (Continued)

(b) Credit sales are mainly derived from (i) the Game Business in which the Group contracts with various third party platforms to publish games and it is entitled to the proceeds collected from sales of in-game virtual items on its behalf by these platforms; (ii) the Fintech Business in which the Group contracts with various assets providers to facilitate their assets with online investors. The normal credit term of Game Business granted by the Group was from 30 to 180 days from respective transaction dates and the credit term of Fintech Business was up to 30 days from respective transaction date. As at 31 December 2017, trade receivables which had been past due but not impaired amounted to RMB12,137,000. These receivables were due from a number of game platforms and assets providers which were assessed by the Group to have no significant financial difficulties and they could be recovered based on past trading and repayment history. Generally the maximum age of majority of this category of trade receivables is less than one year.

(c) Movements on the Group's provision for impairment of trade receivables are as follows:

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
At beginning of year	23,656	7,788
Provision for impairment	1,217	15,813
Receivables written off during the year as uncollectible	(8,503)	—
Reversal	—	(114)
Currency translation differences	33	169
At end of year	16,403	23,656

The creation and reversal of provision for impaired receivables have been included in “administrative expenses” in the consolidated statement of comprehensive income/(loss). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 TRADE RECEIVABLES (Continued)

(d) The gross amount of the Group's trade receivables are denominated in the following currencies:

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
RMB	48,729	45,494
USD	7,913	14,757
Others	10	3,885
	56,652	64,136

(e) The maximum exposure to credit risk at each reporting date is the carrying value of the net receivable balance. The Group does not hold any collateral as security.

(f) As at 31 December 2017, 45% (2016: 23%) of trade receivables were due from 2 large customers in cooperation with the Group for its Game Business and Fintech Business, respectively.

20 LOAN RECEIVABLES

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
Personal Loans		
– Guaranteed loans	219,915	—
– Collateralised loans	15,337	—
	235,252	—
Less: Provision for impairment loss, collectively assessed	(3,510)	—
Net Loan Receivables	231,742	—

The loan periods granted to customers are within one year. Loan receivables are all dominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 LOAN RECEIVABLES (Continued)

(a) Analysis of loan receivables by overdue and impaired states

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
Neither past due nor impaired	201,713	—
Overdue but not impaired	33,539	—
Individually impaired	—	—
	<u>235,252</u>	<u>—</u>
Less: Provision for impairment losses	(3,510)	—
Net balance	<u>231,742</u>	<u>—</u>

(b) Movement of allowance for impairment losses

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
At beginning of the year	—	—
Charge for the year		
– Collectively assessed	3,510	—
	<u>3,510</u>	<u>—</u>
At end of the year	<u>3,510</u>	<u>—</u>

Loans that are overdue but not impaired are loans less than 90 days past due and guaranteed by other enterprises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
Included in non-current assets		
Rental and other deposits	3,051	500
Others	825	683
	<u>3,876</u>	<u>1,183</u>
Included in current assets		
Receivable from Fintech Business partners	45,787	—
Receivable from disposal of investment in an associate	43,750	—
Receivable from disposal of available-for-sale financial assets	22,500	—
Prepayments to game developers	12,594	12,677
Prepayments for outsourcing services	7,207	7,358
Prepaid advertising costs	4,847	5,342
Others	32,350	9,510
	<u>169,035</u>	<u>34,887</u>
Less: provision for impairment	<u>(24,890)</u>	<u>(24,775)</u>
	<u>144,145</u>	<u>10,112</u>

- (a) The carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximate to their fair values due to their short maturity at the reporting date. As at 31 December 2017, there were no significant balances that were past due except for those provided for impairment loss (2016: Nil).
- (b) The maximum exposure to credit risk as at the reporting date is the carrying value of each class of other receivables mentioned above. The Group does not hold any collateral as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 PREPAYMENTS AND OTHER RECEIVABLES (Continued)

(c) Movements on the Group's provision for impairment of prepayments and other receivables are as follows:

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
At beginning of year	24,775	4,843
Provision for impairment	170	19,815
Currency translation differences	(55)	117
At end of year	24,890	24,775

The provision of RMB170,000 was made against the carrying amount of prepayments and other receivables due from that certain debtors were in default.

The creation and release of provision for impaired prepayments and other receivables have been included in "administrative expenses" in the consolidated statement of comprehensive income/(loss). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

22 CASH AND CASH EQUIVALENTS, SHORT-TERM DEPOSITS AND RESTRICTED CASH

(a) Cash and cash equivalents

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
Cash at bank and on hand	588,299	264,123
Cash at other financial institutions	66,616	3,863
Cash and cash equivalents	654,915	267,986
Maximum exposure to credit risk	654,915	267,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 CASH AND CASH EQUIVALENTS, SHORT-TERM DEPOSITS AND RESTRICTED CASH (Continued)

(a) Cash and cash equivalents (Continued)

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
RMB	595,519	251,568
US\$	54,459	5,643
HK\$	4,752	8,418
NT\$	185	2,357
	654,915	267,986

(b) Short-term deposits

As at 31 December 2017, the short-term deposits amounted to RMB34,650,000 (2016: RMB448,997,000) was bank deposits with original maturity of three months and redeemable on maturity. The short-term deposit is denominated in RMB, the weighted average effective interest rate was 3.29% (2016: 1.57%).

(c) Restricted cash

As at 31 December 2017, RMB751,000 (2016: RMB807,000) were restricted deposits held at bank as collateral for credit card.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 SHARE CAPITAL, SHARE PREMIUM, AND SHARES HELD FOR RESTRICTED SHARE UNITS SCHEME

Note	Number of Ordinary Shares	Nominal Value of Ordinary Shares US\$' 000	Share Capital RMB' 000	Share Premium RMB' 000	Shares held for Restricted Share Units Scheme RMB' 000	Total RMB' 000
Ordinary shares, issued and fully paid:						
As at 1 January 2016	139,269,763	14	88	2,099,777	—	2,099,865
Employee share-based compensation scheme:						
– Shares purchased for Restricted Share Units Scheme	a	(1,065,000)	—	—	(7,836)	(7,836)
– Vesting and allotting of shares of Restricted Share Units Scheme	a	1,065,000	—	303	7,836	8,139
– Shares issued upon exercise of employee share options under Pre-IPO Share Option Scheme (Note 25(a))	b	681,946	—	1	—	1
Repurchase and cancellation of shares		(2,395,500)	—	(2)	(26,180)	(26,182)
As at 31 December 2016	<u>137,556,209</u>	<u>14</u>	<u>87</u>	<u>2,073,900</u>	<u>—</u>	<u>2,073,987</u>
Employee share-based compensation scheme:						
– Shares issued upon exercise of employee share options under Pre-IPO Share Option Scheme (Note 25(a))	b	615,734	—	—	—	—
– Shares issued upon exercise of employee share options - Post-IPO Share Option Scheme (Note 25(b))	c	15,000	—	187	—	187
– Shares purchased for Restricted Share Units Scheme	a	(1,790,400)	—	—	(19,681)	(19,681)
– Vesting and allotting of of Restricted Share Units Scheme	a	1,010,000	—	—	10,097	10,097
As at 31 December 2017	<u>137,406,543</u>	<u>14</u>	<u>87</u>	<u>2,074,087</u>	<u>(9,584)</u>	<u>2,064,590</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 SHARE CAPITAL, SHARE PREMIUM, AND SHARES HELD FOR RESTRICTED SHARE UNITS SCHEME (Continued)

Notes:

- (a) During the year, the Restricted Share Units Scheme Trust (Note 11a) acquired 1,790,400 then existing issued ordinary shares (2016: 1,065,000) from the open market. The total consideration was HK\$22,634,000 (equivalent to RMB19,681,000) (2016: HK\$8,825,000 (equivalent to RMB7,836,000)).

During the year, a total of 1,010,000 restricted share units (2016: 1,065,000) were vested and allotted (Note 25(c)). The fair value and purchase cost of these vested shares was RMB7,719,000 and RMB10,097,000 (2016: RMB8,139,000 and RMB7,836,000), respectively.

The difference between the fair value and purchase cost amounting to RMB2,378,000 was debited to accumulated losses (2016: RMB303,000 was credited to share premium in respect of vesting of certain shares whose fair values were higher than the costs).

- (b) During the year, employee share options granted under the Pre-IPO Share Option Scheme were exercised to subscribe for 615,734 shares (2016: 681,946 shares) with exercise price of US\$0.0001.
- (c) During the year, employee share options granted under the Post-IPO Share Option Scheme were exercised to subscribe for 15,000 shares (2016: Nil) with exercise price of HK\$14.61 and RMB187,000 was credited to share premium in respect of the exercise of the share option options under the Post-IPO Share Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 RESERVES

	Capital Reserve RMB' 000 (Note a)	Statutory Reserves RMB' 000 (Note b)	Share-based Compensation Reserve RMB' 000	Translation Differences RMB' 000	Other Reserves RMB' 000	Total RMB' 000
At 1 January 2016	30,000	10,828	189,884	31,605	(363,067)	(100,750)
Value of employee service						
– Pre-IPO Share Option Scheme	—	—	1,263	—	—	1,263
– Post-IPO Share Option Scheme	—	—	961	—	—	961
– Restricted Share Units Scheme	—	—	14,048	—	—	14,048
Currency translation differences	—	—	—	35,783	—	35,783
Change in value of available-for-sale financial assets – Gross	—	—	—	—	(5,202)	(5,202)
Change in value of available-for-sale financial assets – Tax	—	—	—	—	780	780
Transfer out of share of other net asset changes in associates' equity (Note 11b)	—	—	—	—	(4,040)	(4,040)
Vesting and allotting of shares of Restricted Share Units Scheme (Note 25(c))	—	—	(8,139)	—	—	(8,139)
At 31 December 2016	<u>30,000</u>	<u>10,828</u>	<u>198,017</u>	<u>67,388</u>	<u>(371,529)</u>	<u>(65,296)</u>
At 1 January 2017	30,000	10,828	198,017	67,388	(371,529)	(65,296)
Value of employee service						
– Pre-IPO Share Option Scheme	—	—	285	—	—	285
– Post-IPO Share Option Scheme	—	—	—	—	—	—
– Restricted Share Units Scheme	—	—	14,604	—	—	14,604
Currency translation differences	—	—	—	(19,632)	—	(19,632)
Change in value of available-for-sale financial assets – Gross	—	—	—	—	(298)	(298)
Change in value of available-for-sale financial assets – Tax	—	—	—	—	45	45
Profit appropriations to statutory reserves	—	3,609	—	—	—	3,609
Vesting and allotting of shares of Restricted Share Units Scheme (Note 25(c))	—	—	(7,719)	—	—	(7,719)
At 31 December 2017	<u>30,000</u>	<u>14,437</u>	<u>205,187</u>	<u>47,756</u>	<u>(371,782)</u>	<u>(74,402)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 RESERVES (Continued)

Notes:

- (a) Capital reserve of the Group arises from capital contribution by the Founders pursuant to the Group reorganisation.
- (b) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group, it is required to appropriate 10% of the annual net profits, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital of the companies incorporated in the PRC, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be capitalised as capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve funds. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not be made.

25 SHARE-BASED PAYMENTS

(a) Pre-IPO Share Option Scheme

On 31 October 2012, the Board of Directors of the Company approved the establishment of a Pre-IPO Share Option Scheme with the objective to recognise and reward the contribution of eligible directors, employees and other persons to the growth and development of the Group.

The exercise price of the granted options shall be the par value of the ordinary shares as amended as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

The options are conditionally vested on the employee completing a certain period of service, which is mutually agreed by the employees and the Company. In addition, the options are only exercisable after the listing of the Company's shares on any internationally recognised stock exchange of the Company ("performance condition") and the grantees remain employed by the Group.

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

On 1 January, 1 July, and 1 September 2013, 5,385,611, 898,800 and 156,500 share options were granted under the scheme, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 SHARE-BASED PAYMENTS (Continued)

(a) Pre-IPO Share Option Scheme (Continued)

Movements of the number of share options outstanding and their related weighted average exercise prices are as follows:

	Exercise Price	Pre-IPO Share Option Scheme Number of Share Options Year Ended 31 December	
		2017	2016
At beginning of year		1,193,723	2,091,934
Exercised	US\$0.0001	(615,734)	(681,946)
Forfeited	US\$0.0001	—	(216,265)
At end of year		577,989	1,193,723

As a result of the options exercised during the year, 615,734 ordinary shares were issued by the Company (Note 23). The weighted average price of the shares immediately before the dates on which the options were exercised was HK\$9.58 (equivalent to RMB8.31) per share.

As at 31 December 2017, all share options granted would expire in 2022 with an average exercise price of US\$0.0001 per share option. The fair value of share options was determined at the respective grant dates.

The Company has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the Company with their best estimate. The discount rate for pre-IPO share option adopted was estimated by the weighted average cost of capital, which was 23% as at the respective grant dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 SHARE-BASED PAYMENTS (Continued)

(a) Pre-IPO Share Option Scheme (Continued)

Based on fair value of the underlying ordinary share, the Company has used Binomial option-pricing model to determine the fair value of the share option as at the grant date. The weighted average fair value of pre-IPO options granted on 1 January, 1 July, and 1 September 2013 was US\$3.03 (equivalent to RMB19.02), US\$4.88 (equivalent to RMB30.26) and US\$5.12 (equivalent to RMB31.61) per option, respectively. Key assumptions are set as below:

	Pre-IPO Share Option Scheme 1 January 2013	Pre-IPO Share Option Scheme 1 July and 1 September 2013
Risk-free interest rate	1.84%	2.51%
Volatility	60.33%	56.42%
Dividend yield	—	—

The Company estimated the risk-free interest rate based on the yield of US Treasury Strips with maturity equal to the option life of the share option. Volatility was estimated at grant date based on the average of historical volatilities of the comparable companies with duration commensurate to the time to reach maturity of the respective share options. Dividend yield is determined based on management estimates made as at the grant date.

During the year, the Company recorded share based compensation of RMB285,000 (2016: RMB1,263,000) related to Pre-IPO Share Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 SHARE-BASED PAYMENTS (Continued)

(b) Post-IPO Share Option Scheme

On 1 September 2013, the Board of Directors of the Company approved the establishment of a Post-IPO Share Option Scheme with the objective to reward eligible directors, employees and other persons for their past contribution to the success of the Group, and to provide incentives to them to further contribute to the Group.

The exercise price of the granted options represents the highest of (i) the closing price per share as stated in the Main Board of The Stock Exchange of Hong Kong Limited's daily quotations sheet on the offer dates; (ii) the average closing prices per share as stated in the Main Board of The Stock Exchange of Hong Kong Limited's daily quotations sheets for the 5 business days immediately preceding the offer dates; and (iii) the nominal value of a share.

The options are conditionally vested upon the employee completing 2 years of service from the offer date, which is mutually agreed by the employees and the Company.

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

On 2 January and 10 June 2015, 1,908,000 and 3,845,000 share options were granted under the scheme, respectively.

For those share options granted on 10 June 2015, the Group and the grantees agreed they are subject to certain non-market performance vesting conditions which are related to the financial performance of the Group during the vesting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 SHARE-BASED PAYMENTS (Continued)

(b) Post-IPO Share Option Scheme (Continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Post-IPO Share Option Scheme Year Ended 31 December			
	2017		2016	
	Average Exercise Price	Number of Share Options	Average Exercise Price	Number of Share Options
At beginning of year		2,278,000		5,383,000
Exercised	HK\$14.61	(15,000)	—	—
Forfeited	HK\$24.29	(700,000)	HK\$23.93	(3,105,000)
At end of year		1,563,000		2,278,000

As a result of the options exercised during the year, 15,000 ordinary shares were issued by the Company (Note 23). The weighted average price of the shares immediately before the dates on which the options were exercised was HK\$16.47 (equivalent to RMB14.29) per share.

As at 31 December 2017, all share options granted will expire in 2019 with an average exercise price of HK\$15.57 per share option.

The fair value of share options was determined at the respective grant dates.

Based on fair value of the underlying ordinary share, the Company has used Binomial option-pricing model to determine the fair value of the share option as at the grant date. The weighted average fair value of post-IPO options granted on 2 January and 10 June 2015 was HK\$5.78 (equivalent to RMB4.62) and HK\$9.17 (equivalent to RMB7.33). Key assumptions are set as below:

	Post-IPO Share Option Scheme 2 January 2015	Post-IPO Share Option Scheme 10 June 2015
Risk-free interest rate	1.35%	1.01%
Volatility	53.64%	54.49%
Dividend yield	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 SHARE-BASED PAYMENTS (Continued)

(b) Post-IPO Share Option Scheme (Continued)

The Company estimated the risk-free interest rate based on the yield of Hong Kong Foreign Exchange Fund Bonds with a maturity life equal to the option life of the share option at the grant date. Volatility was estimated at grant date based on average of historical volatilities of the comparable companies with duration commensurate to the time to maturity of the share option. Dividend yield is based on management estimation at the grant date.

Since all the share options related to the Post-IPO Share Option Scheme have been vested, no share based compensation expense related to the Post-IPO Share Option Scheme were incurred for the years ended December 31, 2017 (2016: RMB961,000).

(c) Restricted Share Units Scheme

On 13 September 2013, the Board of Directors of the Company approved to adopt a Restricted Share Units Scheme. During the year ended 31 December 2017, the Company granted 4,260,000 restricted share units to certain directors and employees of the Group (collectively, the "Grantees") pursuant to the Restricted Share Units Scheme at the grant date fair value of HK\$8.88 (equivalent to RMB7.64) for each restricted share unit. The fair value of restricted share units granted to employees is measured with reference to the closing price of the ordinary share of the Company at the grant date and recognised as staff costs with a corresponding increase in the capital reserve within equity.

The vesting schedule of the restricted share units as follows:

Percentage of the restricted share units	Date of vesting of the relevant percentage of the restricted share units
25%	1 December 2016
25%	1 June 2017
25%	1 December 2017
25%	1 June 2018

During the year ended 31 December 2017, the Company recorded share based compensation of RMB14,604,000 (2016: RMB14,048,000) related to Restricted Share Units Scheme.

Upon vesting and transfer to the Grantees, the related costs of the shares are credited to Shares held for Restricted Share Units Scheme, and the related fair value of the shares are debited to share-based compensation reserve. The difference between the cost and the fair value of the shares is credited to share premium if the fair value is higher than the cost or debited against accumulated losses if the fair value is less than the cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 DEFERRED REVENUE

	As at 31 December	
	2017	2016
	RMB' 000	RMB' 000
Included in non-current liabilities	270	410
Included in current liabilities	7,026	10,854
	7,296	11,264

Deferred revenue primarily consisted of unamortised virtual items in the Group's Game Business, which the Group continued to have obligations as at the reporting date. Deferred revenue will be recognised as revenue when all of the revenue recognition criteria are met. As at 31 December 2017, the deferred revenue associated with Game Business amounted to RMB6,896,000.

27 TRADE PAYABLES

Trade payables primarily related to (i) the purchase of services for server custody, content costs, agency fees and revenue to be shared and be payable to game developers in Game Business; (ii) cash incentives payable to online investors in Fintech Business.

The aging analysis based on recognition date of trade payables is as follows:

	As at 31 December	
	2017	2016
	RMB' 000	RMB' 000
0-30 days	9,393	7,183
31-60 days	5,588	3,238
61-90 days	3,659	3,199
91-180 days	5,746	9,188
181-365 days	5,210	1,712
Over 1 years	4,573	2,132
	34,169	26,652

Trade payables were denominated in RMB and the fair values of these balances approximate their carrying amounts at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
Deposits received in Fintech Business	87,099	—
Services fee and others received on behalf of Fintech Business partners	86,736	—
Staff costs and welfare accruals	28,703	21,410
Professional service fees payable	11,440	2,527
Advertising expenses accruals	4,978	27,400
Others	33,898	12,770
	<u>252,854</u>	<u>64,107</u>

Other payables and accruals were primarily denominated in RMB and the fair values of these balances approximated their carrying amounts at the reporting date.

29 DEFERRED INCOME TAX

(a) Deferred income tax assets

The analysis of deferred income tax assets are as follows:

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
The balance comprises temporary differences attributable to:		
– Tax losses	524	—
Deferred income tax assets - net	<u>524</u>	<u>—</u>

The movements in deferred income tax assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Deferred Revenue RMB' 000	Accruals RMB' 000	Accumulated Loss RMB' 000	Others RMB' 000	Total RMB' 000
At 1 January 2016	1,112	92	7,528	3,954	12,686
Recognised in the profit or loss	(1,112)	(92)	(7,528)	(3,954)	(12,686)
At 31 December 2016	—	—	—	—	—
Recognised in the profit or loss	—	—	(608)	—	(608)
Acquisition of a subsidiary (Note 32)	—	—	1,132	—	1,132
At 31 December 2017	<u>—</u>	<u>—</u>	<u>524</u>	<u>—</u>	<u>524</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 DEFERRED INCOME TAX (Continued)

(a) Deferred income tax assets (Continued)

As at 31 December 2017, deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. Based on management's assessment, the Group's losses amounting to RMB196,423,000 (2016: RMB242,393,000) is not considered probable to be utilised, therefore the Group did not recognise relevant deferred income tax assets amounting to RMB34,859,000 (2016: RMB36,359,000) for these losses. Accumulated losses amounting to RMB53,011,000, RMB48,566,000, RMB76,988,000, RMB17,858,000, as at 31 December 2017 will expire in 2019, 2020, 2021 and 2022, respectively.

(b) Deferred income tax liabilities

The analysis of deferred income tax liabilities are as follows:

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
The balance comprises temporary differences attributable to:		
– Fair value change of available for sale assets	19	64
– Acquisition of a subsidiary (Note 32)	32,158	—
Deferred income tax liabilities - net	32,177	64

The movements in deferred income tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Intangible Assets in Business Combination RMB' 000	Available- for-sale Financial Assets RMB' 000	Total RMB' 000
At 1 January 2016	—	844	844
Tax credit relating to components of other comprehensive (loss)/income	—	(780)	(780)
At 31 December 2016	—	64	64
Tax credit relating to components of other comprehensive (loss)/income	—	(45)	(45)
Acquisition of a subsidiary (Note 32)	38,300	—	38,300
Recognised in the profit or loss	(6,142)	—	(6,142)
At 31 December 2017	32,158	19	32,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CASH USED IN OPERATIONS

	Year Ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Profit/(loss) before income tax	73,143	(383,014)
Adjustments for:		
– Depreciation of property and equipment (Note 14)	4,076	11,769
– Impairment of property and equipment (Note 14)	—	2,459
– Amortisation of intangible assets (Note 15)	36,397	22,787
– Impairment of intangible assets (Note 15)	5,077	27,739
– Loss on disposal of property and equipment (Note a)	1,245	3,400
– Changes in the value of financial assets at fair value through profit or loss (Note 17)	5,889	9,791
– Share-based compensation expenses (Note 25)	14,889	16,272
– Gain on disposal of investment in an associate	(62,576)	—
– Share of income of investments accounted for using the equity method (Note 11b)	(10,850)	(2,047)
– Gain on dilution of investments accounted for using the equity method (Note 11b)	—	(3,907)
– Gain on disposal of available-for-sale financial assets	(11,500)	—
– Finance income – net (Note 10)	(5,384)	(8,701)
– Impairment of investment in associates (Note 11b)	—	22,219
– Impairment of available-for-sale financial assets (Note 18)	6,540	108,063
– Exchange losses, net	271	2,323
Changes in working capital:		
– Trade receivables	11,965	31,447
– Prepayments and other receivables	26,637	32,327
– Trade payables	(16,887)	4,959
– Other payables and accruals	79,568	29,222
– Loan receivables	(231,742)	—
– Deferred revenue	(3,968)	(4,123)
Cash used in operations	(77,210)	(77,015)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CASH USED IN OPERATIONS (Continued)

(a) In the consolidated statement of cash flows, proceeds from sale of property and equipment comprise:

	Year ended 31 December	
	2017 RMB' 000	2016 RMB' 000
Net book amount (Note 14)	1,872	4,751
Loss on disposal of property and equipment (Note 8)	(1,245)	(3,400)
Net change in receivable arising from disposal of property and equipment	865	(511)
Proceeds from disposal of property and equipment	1,492	840

31 COMMITMENTS

(a) Capital commitments

As at 31 December 2017, the capital expenditure contracted but not provided for amounted to RMB5,200,000 (2016: RMB2,250,000), which were related to investment arrangements.

(b) Operating lease commitments

The Group leases buildings for daily operation under non-cancellable operating leases. The lease expenditure charged to the profit or loss during the year is disclosed in Note 6.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2017 RMB' 000	2016 RMB' 000
No later than 1 year	9,207	4,190
Later than 1 year and no later than 5 years	13,142	588
	22,349	4,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 BUSINESS COMBINATION

On 27 September 2016, the Company completed an investment in convertible bonds issued by Yinker Inc. (“Yinker”), a company engaged in the provision of internet finance business in the PRC, at a total consideration of USD45,194,000. The investment is a hybrid instrument with embedded derivatives not closely related to the host contract. The Group had designated the entire hybrid instrument contract as a financial asset at fair value through profit or loss, instead of bifurcating the embedded derivatives from the host contract. Fair value change is recorded in other gains/losses in the consolidated statement of comprehensive income/(loss).

On 16 August 2017 (“the acquisition Date”), the Group completed the acquisition of 55% equity interest in Jlc Inc., a subsidiary of Yinker, which is principally engaged in the online wealth management business in the PRC under the “Jianlicai” brand (the “Acquisition”). The purchase consideration is settled through the cancellation of the convertible bonds issued by Yinker as aforementioned. Following the completion of the Acquisition on 16 August 2017, Jlc Inc. and its subsidiary became subsidiaries of the Group.

The acquisition fell within the scope of IFRS 3 Business Combinations and therefore the acquired assets and liabilities as of the acquisition date were recognised at fair values.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	RMB' 000
Purchase consideration:	
Convertible Bonds	302,621
Total purchase consideration	<u>302,621</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 BUSINESS COMBINATION (Continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value RMB'000
Cash	46,241
Trade receivables	11,734
Prepayments and other receivables	99,766
Plant and equipment	489
Intangible assets: licenses	2,915
Intangible assets: computer software	202
Intangible assets: platform	138,200
Intangible assets: brand name	37,200
Intangible assets: backlog	16,100
Deferred tax assets	1,132
Trade payables	(24,492)
Tax payable	(4,355)
Other payables and accruals	(110,926)
Deferred revenue	(19)
Deferred tax liabilities	(38,300)
	<hr/>
Net identifiable assets acquired	175,887
Less: non-controlling interests (i)	(79,149)
Add: goodwill	205,883
	<hr/>
Net assets acquired	<u>302,621</u>

The goodwill of RMB205,883,000 arising from the acquisition is attributable to the workforce and the high profitability of the acquired business. None of the goodwill recognised is expected to be deductible for tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 BUSINESS COMBINATION (Continued)

(i) Accounting policy choice for non-controlling interests

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Jlc Inc., the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets. See note 2.2.1(a) for the group's accounting policies for business combinations.

(ii) Revenue and profit contribution

The acquired business contributed revenues of RMB109,526,000 and net loss of RMB11,899,000 to the Group for the period from 16 August to 31 December 2017.

If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and net profit for the year ended 31 December 2017 would have been RMB442,825,000 and RMB98,156,000 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the Group and the subsidiary, and
- the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 January 2017, together with the consequential tax effects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Significant transactions with related parties

		Year Ended 31 December	
		2017	2016
		RMB' 000	RMB' 000
(i)	Revenue derived from the Group's sales of online games' copyright to related parties and provision of services to related parties		
	Associates	<u>5,437</u>	<u>252</u>

		Year Ended 31 December	
		2017	2016
		RMB' 000	RMB' 000
(ii)	Content cost to related parties who provided publishing services to the Group for game operation		
	Associates	<u>5,465</u>	<u>5,417</u>

		Year Ended 31 December	
		2017	2016
		RMB' 000	RMB' 000
(iii)	Sales of equipment		
	Associates	<u>—</u>	<u>21</u>

(b) Year end balances arising from sales and purchase of services

		As at 31 December	
		2017	2016
		RMB' 000	RMB' 000
(i)	Receivable from related parties		
	Associates	<u>1,673</u>	<u>1,919</u>
	Less: provision for impairment	<u>(1,658)</u>	<u>(1,640)</u>
		<u>15</u>	<u>279</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Year end balances arising from sales and purchase of services (Continued)

The receivables due from related parties mainly arose from the revenue sharing generated from games operated and published by related parties.

	As at 31 December	
	2017	2016
	RMB' 000	RMB' 000
(ii) Other receivables due from related parties		
Associates	<u>341</u>	341
Less: provision for impairment	<u>(237)</u>	(237)
	<u>104</u>	<u>104</u>

	As at 31 December	
	2017	2016
	RMB' 000	RMB' 000
(iii) Prepayment to related parties		
Associates	<u>919</u>	<u>379</u>

	As at 31 December	
	2017	2016
	RMB' 000	RMB' 000
(iv) Payable to related parties		
Associates	<u>186</u>	<u>2,296</u>

The payables due to related parties arose from revenue sharing generated from games developed/operated by the related parties, which the Group provides the game platform and related publishing services. The Group is obliged to share the income with the related parties according to provisions stipulated in the respective cooperation agreements.

Balances with related parties were all unsecured, interest-free and had no fixed repayment terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensations

Key management includes directors, CEO and other senior executives. The aggregate compensation paid/payable to key management for employee services is as follows:

	Year Ended 31 December	
	2017	2016
	RMB' 000	RMB' 000
Fees, Wages, salaries and bonuses	6,964	4,382
Pension costs – defined contribution plans	107	84
Other social security costs and housing benefits	206	169
Share-based compensation expenses	11,835	11,225
	<u>19,112</u>	<u>15,860</u>

34 CONTINGENCIES

As at 31 December 2017, the Group did not have any significant unrecorded contingent liabilities.

35 SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2017 to the approval date of these financial statements by the Board of Directors on 27 March 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December	
		2017 RMB' 000	2016 RMB' 000
ASSETS			
Non-current assets			
Investments in subsidiaries		486,436	181,956
Financial assets at fair value through profit or loss		—	314,032
Amounts due from subsidiaries		534,789	297,655
		<u>1,021,225</u>	<u>793,643</u>
Current assets			
Amounts due from subsidiaries		77,713	76,612
Prepayments and other receivables		5,120	1,004
Cash and cash equivalents		31,686	1,254
Short-term deposits		—	329,302
		<u>114,519</u>	<u>408,172</u>
Total assets		<u>1,135,744</u>	<u>1,201,815</u>
EQUITY			
Share capital		87	87
Share premium		2,074,087	2,073,900
Reserves	(a)	(119,970)	(77,757)
Shares held for Restricted Share Units Scheme		(9,584)	—
Accumulated losses	(a)	(812,359)	(794,944)
Total equity		<u>1,132,261</u>	<u>1,201,286</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Balance sheet of the Company (Continued)

	Note	As at 31 December	
		2017 RMB'000	2016 RMB'000
LIABILITIES			
Current liabilities			
Other payables and accruals		<u>3,483</u>	<u>529</u>
Total liabilities		<u>3,483</u>	<u>529</u>
Total equity and liabilities		<u>1,135,744</u>	<u>1,201,815</u>

The balance sheet of the Company was approved by the Board of Directors on 27 March 2018 and was signed on its behalf.

WANG Dongfeng
Director

LIANG Na
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(a) Reserve movement of the Company

	Accumulated losses RMB' 000	Reserves RMB' 000
Balance at 1 January 2016	<u>(786,311)</u>	<u>(143,768)</u>
Currency translation differences	—	57,878
Value of employee services	—	16,272
Vesting and allotting of shares of Restricted Share Units Scheme	—	(8,139)
Loss for the year	<u>(8,633)</u>	<u>—</u>
Balance at 31 December 2016	<u>(794,944)</u>	<u>(77,757)</u>
Currency translation differences	—	(49,383)
Value of employee services	—	14,889
Vesting and allotting of shares of Restricted Share Units Scheme	(2,378)	(7,719)
Loss for the year	<u>(15,037)</u>	<u>—</u>
Balance at 31 December 2017	<u>(812,359)</u>	<u>(119,970)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives' emoluments

The remuneration of each director and chief executive is set out below:

For the year ended 31 December 2017:

Name	Fees RMB' 000	Salaries and Discretionary		Employer's contribution to a retirement benefit scheme	Housing Allowance RMB' 000	Estimated monetary value of other benefits (note i) RMB' 000	Total RMB' 000
		Bonus RMB' 000					
Executive Directors							
Wang Dongfeng (ii)	—	468	63	43	1,982	2,556	
Liang Na	—	2,778	14	12	3,216	6,020	
Zhang Yang (iii)	—	1,332	18	11	12	1,373	
Non-executive directors							
Zhang Qiang	270	—	—	—	387	657	
Independent non-executive directors							
How Sze Ming	270	—	—	—	387	657	
Poon Philana Wai Yin	270	—	—	—	387	657	
Zhao Cong Richard	270	—	—	—	387	657	
	<u>1,080</u>	<u>4,578</u>	<u>95</u>	<u>66</u>	<u>6,758</u>	<u>12,577</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executives' emoluments (Continued)

For the year ended 31 December 2016:

Name	Fees RMB' 000	Salaries and Discretionary Bonus RMB' 000	Employer's contribution to a retirement benefit scheme RMB' 000	Housing Allowance RMB' 000	Estimated monetary value of other benefits (note i) RMB' 000	Total RMB' 000
Executive Directors						
Wang Dongfeng (ii)	—	478	57	40	1,686	2,261
Liang Na	—	914	8	7	2,867	3,796
Non-executive directors						
Zhang Qiang	161	—	—	—	330	491
Independent non-executive directors						
How Sze Ming	266	—	—	—	330	596
Poon Philana Wai Yin	266	—	—	—	330	596
Zhao Cong Richard	266	—	—	—	330	596
	<u>959</u>	<u>1,392</u>	<u>65</u>	<u>47</u>	<u>5,873</u>	<u>8,336</u>

Notes:

- (i) Other benefits mainly include share-based awards compensation.
 - (ii) Mr. Wang Dongfeng is the executive director and the chief executive officer ("CEO") of the Company.
 - (iii) Mr. Zhang Yang was appointed as an executive director and the chief operations officer ("COO") of the Company with effect from 31 August 2017.
 - (iv) During the year, no directors waived or agreed to waive any emoluments.
- (b) During the year, neither directors nor the seven highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

DEFINITIONS

“Annual General Meeting”	the annual general meeting of the Company proposed to be held on Friday, 25 May 2018
“ARPPU”	average revenue per paying users
“Articles”	the articles of association of the Company, as amended from time to time
“Audit and Compliance Committee”	the audit and compliance committee of the Board
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Beijing Hongruan”	Beijing Hongruan Xiechuang Communication and Technology Co., Ltd.* (北京虹軟協創通訊技術有限公司), a limited liability company established in the PRC. The Company has ceased to hold any interest in Beijing Hongruan as at the Latest Practicable Date
“Board” or “Board of Directors”	the board of Directors of the Company
“BVI”	the British Virgin Islands
“Cayman Islands”	the Cayman Islands
“China” or “PRC”	the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this annual report, excluding Hong Kong, Macau and Taiwan
“Company” or “Forgame” or “we” or “us”	Forgame Holdings Limited (雲遊控股有限公司), an exempted company incorporated in the Cayman Islands on 26 July 2011 with limited liability, whose Shares became listed on the Main Board of the Stock Exchange on the Listing Date
“Connected Person(s)”	has the same meaning ascribed thereto in the Listing Rules
“Connected Transaction(s)”	has the same meaning ascribed thereto in the Listing Rules
“Contractual Arrangements”	the Feidong Contractual Arrangements and the JLC Contractual Arrangements
“Corporate Governance Code” or “CG Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
“Director(s)”	director(s) of the Company
“Executive Director(s)”	executive director(s) of the Company
“Family Trusts”	Wang Trust, Keith Huang Trust, Hao Dong Trust and Zhuangjig Trust, collectively

DEFINITIONS

“Feidong”	Guangzhou Feidong Software Technology Co., Ltd. (also referred to as Guangzhou Feidong Software Technology Company Limited)* (廣州菲動軟件科技有限公司), an indirect, wholly-owned subsidiary of the Company, established under the laws of the PRC on 13 June 2012
“Feidong Contractual Arrangements”	a series of contractual arrangements entered into between Feidong, the Feidong PRC Operational Entities and their respective shareholders
“Feidong PRC Operational Entities”	Feiyin, Weidong and Jieyou, whose financial results have been consolidated and accounted for as subsidiaries of the Company by virtue of the Feidong Contractual Arrangements, collectively
“Feiyin”	Guangzhou Feiyin Information Technology Co., Ltd. (also referred to as Guangzhou Feiyin Information Technology Company Limited)* (廣州菲音信息科技有限公司), a limited company established under the laws of the PRC on 12 April 2004
“Financial Statements”	audited consolidated financial statements of the Company for the year ended 31 December 2017
“FITE Regulations”	Regulations for the Administration of Foreign-invested Telecommunications Enterprises promulgated by the State Council on 11 December 2001 and subsequently amended on 10 September 2008
“Foga Development”	Foga Development Co. Ltd., a company incorporated in the BVI on 25 July 2011
“Foga Group”	Foga Group Ltd., a company incorporated in the BVI on 25 July 2011
“Foga Holdings”	Foga Holdings Ltd., a company incorporated in the BVI on 25 July 2011, which was established by Mr. Liao and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the Hao Dong Trust
“Foga Internet Development”	Foga Internet Development Ltd., a company incorporated in the BVI on 25 July 2011, which was established and wholly-owned by Mr. Yang and is one of the Holding Companies
“Foga Networks”	Foga Networks Development Ltd., a company incorporated in the BVI on 25 July 2011, which was established by Mr. Huang and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the Keith Huang Trust
“Foga Tech”	Foga Tech Limited, a limited company incorporated under the laws of Hong Kong on 9 August 2011 and a wholly-owned subsidiary of the Company

DEFINITIONS

“Founders”	Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang, who are the founder(s) of the Company, collectively
“Group”	the Company and its subsidiaries, collectively
“Hao Dong Trust”	a discretionary trust set up by Mr. Liao of which Managecorp Limited acts as the trustee and the discretionary beneficiary of which is Mr. Liao
“Holding Companies”	Foga Group, Foga Networks, Foga Holdings, Foga Internet Development and Foga Development, which are the immediate holding companies of the Company established by Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang respectively, collectively
“Hong Kong” or “HK”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“ICP Licence”	internet content provision licence, a value-added telecommunications business operation licence issued by the relevant PRC government authorities with a service scope of information services
“IFRSs”	financial reporting standards and interpretations approved by the International Accounting Standards Board, and includes all International Accounting Standards and interpretations issued under the former International Accounting Standards Committee from time to time
“Independent Non-executive Director(s)”	independent non-executive Director(s) of the Company
“IP”	intellectual property
“IPO”	initial public offering of the Shares on the Stock Exchange
“IT”	information technology
“Jieyou”	Guangzhou Jieyou Software Co., Ltd. (also referred to as Guangzhou Jieyou Software Company Limited)* (廣州捷遊軟件有限公司), a limited company established under the laws of the PRC on 7 June 2012
“Jinweilai”	Beijing Jinweilai Financial Information Service Co., Ltd. (also referred to as Beijing Jinweilai Financial Information Service Company Limited)* (北京金未來金融信息服務有限公司), a limited liability company established in the PRC, the entire equity interest of which is held by the JLC Registered Shareholder

DEFINITIONS

“JLC (Cayman)”	Jlc Inc., an exempted company duly incorporated with limited liability and validly existing under the laws of the Cayman Islands
“JLC (HK)”	Jianlc (HK) Limited, a limited liability company incorporated in Hong Kong, the entire equity interest of which is held by JLC (Cayman)
“JLC (WFOE)”	New Goround Network Technology (Tianjin) Co., Ltd.* (新谷原信息技術(天津)有限公司), a limited liability company established in the PRC, the entire equity interest of which is held by the JLC (HK)
“JLC Contractual Arrangements”	a series of contractual arrangements entered into between JLC (WFOE), the JLC VIE Controlled Entities and their respective shareholders
“JLC PRC Equity Owners”	Mr. Guo Yong and Ms. Qiu Zengzhen, who beneficially owned as to 95% and 5%, respectively, of the equity interest of the JLC Register Shareholder
“JLC PRC Operational Entities”	Jinweilai, Laijin and Weilaijin, whose financial results have been consolidated and accounted for as subsidiaries of the Company by virtue of the JLC Contractual Arrangements, collectively
“JLC Registered Shareholder”	Jinweilai (Guangzhou) Investment Consultancy Co., Ltd. (also referred to as Jinweilai (Guangzhou) Investment Consultancy Company Limited)* (金未來(廣州)投資諮詢有限公司), a limited liability company established in the PRC, the entire equity interest of which is held by the JLC PRC Equity Owners
“JLC VIE Controlled Entity(ies)”	the JLC PRC Operational Entities and the JLC Registered Shareholder
“Keith Huang Trust”	a discretionary trust set up by Mr. Huang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Huang and certain of his family members
“Laijin”	Beijing Laijin Investment Fund Management Co., Ltd. (also referred to as Beijing Laijing Investment Fund Management Company Limited)* (北京來金投資基金管理有限公司), a limited liability company established in the PRC, the entire equity interest of which is held by Jinweilai
“Latest Practicable Date”	10 April 2018, being the latest practicable date prior to the bulk printing and publication of this annual report
“Ledong”	Hongkong Ledong Tech Limited (香港樂動科技有限公司), a limited company incorporated under the laws of Hong Kong on 22 March 2012 and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Listing Date”	3 October 2013
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Managecorp Limited”	Managecorp Limited, the trustee of each of the Family Trusts
“MIIT”	the Ministry of Industry and Information Technology of the PRC
“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
“Mr. Huang”	Mr. Huang Weibing (黃衛兵) (alias: Huang Kai (黃凱)), one of the Founders and the settlor of Keith Huang Trust
“Mr. Liao”	Mr. Liao Dong (廖東), one of the Founders and the settlor of Hao Dong Trust
“Mr. Wang”	Mr. Wang Dongfeng (汪東風), the Chairman of the Board, an Executive Director, the Chief Executive Officer of the Company, one of the Founders and the settlor of Wang Trust
“Mr. Yang”	Mr. Yang Tao (楊韜), one of the Founders
“Mr. Zhuang”	Mr. Zhuang Jieguang (莊捷廣), an Executive Director who resigned with effect from 1 April 2015, one of the Founders and the settlor of Zhuangjg Trust
“Nomination Committee”	the nomination committee of the Board
“Non-executive Director(s)”	non-executive director(s) of the Company
“Offer Date”	the date on which the Pre-IPO Share Option(s) are offered to an eligible participant as defined in the Pre-IPO Share Option Scheme
“Placing”	the placing of the Placing Shares to professional, institutional and other investors at the placing price of HK\$16.50 per Share on 5 June 2015 pursuant to the terms of the Placing Agreement
“Placing Agreement”	the placing agreement entered into by the Company with BOCOM International Securities Limited as placing agent on 22 May 2015 in relation to the Placing
“Placing Share(s)”	an aggregate of 19,041,900 Shares placed to professional, institutional and other investors pursuant to the Placing

DEFINITIONS

“Post-IPO Share Options”	options to be granted under the Post-IPO Share Option Scheme
“Post-IPO Share Option Scheme”	the post-IPO share option scheme conditionally adopted by the Company on 1 September 2013, for the benefit of the Directors, members of senior management, employees and other eligible participants defined in such scheme
“PRC Operational Entities”	the Feidong PRC Operational Entities and the JLC PRC Operational Entities
“Pre-IPO Share Options”	options granted under the Pre-IPO Share Option Scheme
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme approved and adopted by the Shareholders on 31 October 2012, which was amended and restated on 1 September 2013, for the benefit of the Directors, members of senior management, employees and other eligible participants defined in such scheme
“Prospectus”	the prospectus of the Company dated 19 September 2013 in relation to the IPO
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“RPG(s)”	role-playing game(s)
“RSU(s)”	restricted share unit(s) granted pursuant to the RSU Scheme
“Restricted Share Unit Scheme” or “RSU Scheme”	the scheme conditionally approved and adopted by the Company on 1 September 2013 for the grant of RSUs to RSU participants following the completion of IPO
“SFO”	the Securities and Futures Ordinance of Hong Kong (chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholders”	shareholders of the Company
“Shares”	shares of USD0.0001 each in the share capital of the Company
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules

DEFINITIONS

“United States”	the United States of America
“USD”	United States dollars, the lawful currency of the United States
“Wang Trust”	a discretionary trust set up by Mr. Wang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Wang and certain of his family members
“Weidong”	Guangzhou Weidong Internet Technology Co., Ltd. (also referred to as Guangzhou Weidong Internet Technology Company Limited)* (廣州維動網絡科技有限公司), a limited company established under the laws of the PRC on 22 January 2007
“Weilaijin”	Beijing Weilaijin Asset Management Co., Ltd. (also referred to as Beijing Asset Management Company Limited)* (北京未來金資產管理有限公司), a limited liability company established in the PRC, the entire equity interest of which is held by Jinweilai
“Yinker”	Yinker Inc., an exempted company incorporated with limited liability under the laws of the Cayman Islands
“Yunke”	Jiujiang Yunke Internet Microfinance Co., Ltd.* (九江市雲客網絡小額貸款有限公司), a wholly-owned subsidiary of Feiyin established under the laws of the PRC in 2016
“Zhuangjg Trust”	a discretionary trust set up by Mr. Zhuang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Zhuang and certain of his family members
“91wan”	the self-publishing platform, namely 91wan.com

* The English name is translated for reference purpose only in this Annual Report

APPENDIX: ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is the second Environmental, Social and Governance (“ESG”) Report (this “Report”) of Forgame Holdings Limited (“Forgame”, together with its subsidiaries, collectively the “Group”, “we”, “us” or “our”). We are principally engaged in the developing and publishing of webgames and mobile games with a strategic expansion of our core business into fintech business in the People’s Republic of China (the “PRC”). This Report discloses our sustainability approaches and performances during the year ended 31 December 2017 (the “Reporting Period”). Unless otherwise stated, the scope of this Report covers our (i) Hong Kong office; (ii) game development business; and (iii) our newly expanded business in internet micro-credit. In compiling this Report, we are in strict compliance with the applicable disclosure requirements of the Environmental, Social and Governance Reporting Guide (the “ESG Reporting Guide”) in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

For the corporate governance section, please refer to the section headed “Corporate Governance Report” in the annual report.

We treasure every comment from our stakeholders. If you have any opinions or suggestions about this Report and our sustainability performance, please send your feedback to IR@forgame.com.

APPENDIX: ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT FORGAME

Forgame was established in 2009 and listed on The Stock Exchange of Hong Kong Limited in 2013. Dedicated to delivering joy to our users, we have successfully developed and launched hundreds of high quality webgames and mobile games. In addition to game development, we also manage 91wan, a leading game publishing platform in China.

During the Reporting Period, we have strategically commenced the operations of internet micro-credit business in the PRC with the Jiangxi Microcredit Business License (《江西省小額貸款公司經營許可證》) granted by the Government in December 2016 to seize the opportunities of the fast-growing fintech business and acquired a 55% equity interest in the online wealth management business Jianlicai in the second half of the year.

Vision

To become a global leading light game and fintech company.

Mission

To enable millions of users to enjoy game at any time and at any place and to bring financial inclusion everywhere.

Philosophy

Sharing

Empowering
first-class
teamwork

Learning

Empowering
lifelong and
mutual
development

Passion

Empowering
top-notch
work
efficiency

Execution

Empowering
the
organisation's
success

APPENDIX: ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Awards and Recognition

- 2017 Excellent Enterprise Award (“2017年度優秀企業獎”) – Guangdong Entertainment and Game Industry Congress
- Merit Award – Emerging Internet Finance Company Category – Internet Finance Award (“互聯網金融大獎 - 新創企業優異獎”) – Internet Professional Association
- 2015-16 China’s Key Enterprise of Cultural Export (《國家文化出口重點企業》)
- 2016 China Original Quality Game Publishing Project (《中國原創遊戲精品出版工程》)
- 2016-17 China Internet Community Award (《2016-17年度中國互聯網公益獎》) – Internet Society of China
- High and New Technology Enterprise in China (《高新技術企業》)
- Guangzhou Harmonious Labour Relations Enterprise (《廣州市勞動關係和諧企業》)

OUR APPROACH TO SUSTAINABILITY

Our commitment to sustainable development is underpinned by our visionary strategic move in our expansion into fintech industry, further inroads made into the Internet, media and technology territories. The Group strives to ensure business continuity at the same time as we make our best efforts to bring a positive impact on the environment and the community at large by embodying environmental, social and governance principles in the ways we manage our business.

As a responsible corporate citizen, we have formulated policies for different ESG areas to promote and manage matters in relation to social responsibilities, such as product responsibility, labour practices, environmental protection, health and safety and supply chain management, to guide the Group as well as our business partners to put sustainability into practice. Details of policies and measures we have adopted and our sustainability performances in each area can be found in the corresponding sections of this Report.

LISTENING TO OUR STAKEHOLDERS

Our stakeholder groups mainly include employees, customers, suppliers and business partners, shareholders, government and the wider community. We firmly believe that our sustained growth is accredited to the unceasing support and trust from our stakeholders. We employ a wide range of communication channels, such as meetings, interviews, hotlines, official websites, official WeChat accounts and emails to hear the voice of our stakeholders and respond to their needs, by which we can maintain a close and harmonious relationship with our stakeholders and attain long-term success.

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COMMITMENT TO OUR CUSTOMERS

Quality Assurance

As a technology enterprise, we are committed to creating value to our customers by going the extra mile to provide quality products and excellent services.

By virtue of our talented game development team, we have developed a large game portfolio with games of diverse genres, such as turn-based RPGs, ARPGs, strategy games and action fighting games to cater for players with different interests and preferences. Our team closely monitors the latest trends in entertainment and popular culture to make better themes and storylines. Games are launched on our own publishing platform, 91wan, and other most visited publishing platforms in China to gain extensive exposure to users. We conduct a beta test on 91wan to collect players' feedback so that we can improve and optimise game quality before publishing the game on our partners' platforms. Prior to the launch of a game, we will carry out a series of internal tests in terms of its functions, smoothness, background and firewall set-up to ensure the best game experience for users. After the game is launched, we will conduct regular upgrade and maintenance to remove bugs. We strive to maintain our bonding with players by building a highly interactive and informative online game community and organising a series of in-game and out-of-game activities. Apart from that, we also keep ourselves updated with players' opinions and suggestions through a series of channels, including questionnaire, forum post and customer service, in pursuit of better games and better player experience.

Leveraging our knowhow in internet and technology sectors, we are expanding our business to grasp the golden opportunities brought by the burgeoning fintech industry through engagement in micro-credit business as the first step with the vision of "bringing positive changes to financial sector". We are committed to bringing inclusive financial services to the public by providing equal access to financial services for individuals in need. Currently, we are providing two types of loans, guaranteed loans and collateralised loans. Making use of advanced technology and big data, our online micro-credit application platform is dedicated to meeting the financial needs of eligible customers with ease and convenience at affordable costs. We have conducted cross-validation to review the quality of program codes along with functional and performance test to make sure the stability and reliability of the platform. An automatic testing has also been performed to ensure that the system runs smoothly before its launch. In addition, we have engaged third party service providers to speed up content delivery of our online platform with high traffic and reinforce our platform with network protection services.

We are required to obtain a variety of permits and licences for our operations, including the Value-Added Telecommunications Licence of the PRC (《中華人民共和國增值電信業務經營許可證》), the Network Cultural Business Permit (《網絡文化經營許可證》) and the Internet Publication Licence (《互聯網出版許可證》) for online game development. We have acquired Jiangxi Province Small Loan Company Operation Permit (《江西省小額貸款公司經營許可證》) to carry out our internet micro-credit business. The Group also strictly abides by all applicable laws and regulations of the PRC, including but not limited to the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》), the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》), the Interim Measures for the Administration of Online Games (Amended in 2017《網路遊戲管理暫行辦法》) and the Guidelines for the Supervision and Administration of Network Microcredit Companies of Jiangxi Province (for Trial Implementation) (《江西省網絡小額貸款公司監管指引(試行)》).

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Continuous Innovations

Benefiting from our own publishing platform and our proprietary game analytics engine, we are able to collect and analyse real-time data, including player demographics, source of user traffic, player behaviours and feedback, so that we can continuously calibrate our existing games and develop new games to accommodate players. Our team has succeeded in turning scores of ideas into reality based upon our industry savvy and technological knowhow.

During the Reporting Period, our game development team published 5 new mobile games, as listed below:

Self-developed Mobile Games	Published Date	Genre
Clothes Forever	20 March 2017	Simulation
True King H5: Fight for you	13 September 2017	RPG+HTML5
Havoc in heaven H5	6 September 2017	ARPG+HTML5
Battle Space	25 September 2017	SLG
Combat the World	1 November 2017	RPG

Meanwhile, we have obtained 2 new patents in the Reporting Period, namely “3D Rendering Method and Apparatus for Skeletal Animation” (《3D骨骼動畫的渲染方法及裝置》) and “Skeletal Animation Rendering Method and System” (《骨骼動畫的渲染方法和系統》), which mark our unceasing efforts in pursuing continuous innovations and advancements in games.

Intellectual Property

We are committed to preserving the contribution of our research and development team. In practice, we have established “Guidelines on Prevention of Legal Risks in the Development and Operation of Online Games” (網絡遊戲研發及運營法律風險防範指引) and “Intellectual Property Management Policy” (知識產權管理制度) to reinforce the protection of intellectual property right by enacting standard working procedures to apply for and manage intellectual property, through which the Group’s intangible property can be fully secured. The Group’s intellectual property includes copyright, trademark, patent, trade secret and other rights endowed by (i) The Patent Law of the PRC (《中華人民共和國專利法》); (ii) The Trademark Law of the PRC (《中華人民共和國商標法》); (iii) The Copyright Law of the PRC (《中華人民共和國著作權法》); (iv) the Administrative Measures on China Internet Domain Name (《中國互聯網絡域名管理辦法》); (v) the Measures Concerning Software Products Administration (《軟件產品管理辦法》); (vi) The Anti-unfair Competition Law of the PRC (《中華人民共和國反不當競爭法》) and other applicable laws and regulations, under which games, software, artwork, new technology, skills and other relevant rights are covered.

Confidentiality is held in high regard in order to protect intellectual property. All involved parties are not allowed to disclose or deliver relevant information to others during product development and creation process. In accordance with the Administrative Measures for the Content Self-examination of Internet Culture Business Entities (《網絡文化經營單位內容自審管理辦法》), our self-examination system will ensure our products adhere to our intellectual property measures and relevant regulations.

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Healthy Cyberspace

Being an enterprise focusing on internet business, it is our responsibility to uphold and reinforce healthy cyber culture.

Concerning our game development business, we are in stringent compliance with the Interim Measures for the Administration of Online Games (Amended in 2017) (《網路遊戲管理暫行辦法》2017年修訂) and other applicable laws and regulations. In consideration of this, we have set up a specialised content examination team. Certificated content examiners in the team are responsible for close examination to ensure that elements in games, including names, backgrounds, sound effects, maps, scenes, character designs, building designs, props design and functions, do not contain any law-forbidden or inappropriate wordings and materials, and do not promote obscenity, gambling, violence or abetting crimes.

Under the regulations enforced by the Cyberspace Administration of China (國家互聯網信息辦公室), real-name registration is made obligatory on our publishing platform, 91wan, to verify users' identity and age. To protect minors against cyberspace addiction, users aged below 18 will be restricted by our anti-addiction system in which an anti-addiction notice will pop out every one hour and the game will be forced offline after three hours. On top of that, we have established "Online Game Minor Guardianship Project" ("網絡遊戲未成年人家長監護工程"). Parents can apply for guardianship service and set limits on duration and time zones allowing their children to play in order to prevent obsession.

Data Security

Due to our business nature, we collect and handle a large amount of data from our users and loan applicants. As a result, we may be susceptible to cyber-attacks as well as data loss and leakage. To minimise these risks, we adopt a range of data security measures, for example, access right to key information is limited, password and data transmission are encrypted and data are saved on at least two different locations in our internal servers and further backed up in our long-distance disaster recovery system.

Privacy Protection

Ensuring data privacy is essential to protect our business and maintain our relationships and with customers and business partners. Employees are required to sign a confidentiality agreement to acknowledge their duty in keeping information, including sales data, business plans, personal information of customers and intellectual property, confidential. We have set up access right control in relation to customers' personal data where our employees have limited access to sensitive data depending on a need-to-know basis.

Advertising

We have formulated "Forgame Group and Investment Company Publicity Guidelines" (《Forgame集團及投資公司對外宣傳指引》) by conforming to The Advertisement Law of the PRC (《中華人民共和國廣告法》) and other relevant laws and regulations to ensure the compliance, accuracy and authenticity of all publized materials, such as press conferences, articles and web content.

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COMMITMENT TO OUR SUPPLY CHAIN

Being a responsible corporate, we commit ourselves in sustainable operation by taking environmental and social considerations in high regards. Likewise, we also expect our suppliers to be self-regulatory, thereby bringing positive impacts to the supply chain. We have prepared a supplier code of conduct which lists out our expectations towards our suppliers in upholding business ethics and integrity in operation. By means of signing the code of conduct, suppliers are agreed to meet or exceed the legal requirements in respect of occupational health and safety, anti-discrimination, environmental protection and anti-corruption and fraud.

We conduct a preliminary assessment on suppliers' quality and price for introducing a new supplier. For the purchase of important materials, such as servers, computers and printers, new suppliers having passed the assessment will be recorded on the list of registered suppliers. We will only work with those on the list. Under general circumstances, the list should comprise at least three different suppliers in each category to diversify risks in case one of them is disqualified or our cooperation is terminated. For the existing suppliers, we perform yearly evaluation to ensure that a portfolio of best in class suppliers is available for use. We will look into the price, quality of products, payment terms, delivery and after-sales services for product suppliers and service quality, staff quality and cooperativeness for service providers.

COMMITMENT TO OUR PEOPLE

Sourcing for Talents

We hold a firm belief that our people are essential to the Group's development and success. Therefore, we attach great importance to talent acquisition by scouting for people passionate in game development and fintech business. Recruitment channels include internal referral, campus recruitment, online recruitment, talent market and head hunters. In the selection process, we adhere to the principle of fairness, openness and justice to the greatest extent. What we are mostly concerned with are candidates' competencies and qualifications, instead of their age, gender, physical condition, marital status, race, nationality and religion.

As of 31 December 2017, we had a total of 270¹ employees. Being an equal opportunity employer, the Group has a relatively balanced male-to-female ratio as compared to other technology-based enterprises.



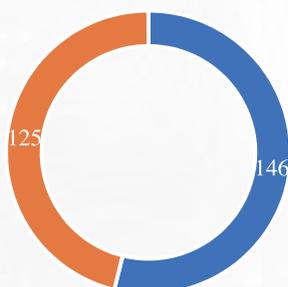
Male to Female Ratio:

1 : 0.86

¹ It covers the employees of our Hong Kong office, game development business and internet micro-credit business only.

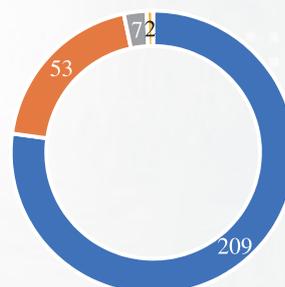
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Distribution of Employees by Gender



■ 男 ■ 女

Distribution of Employees by Age



■ >21 ■ >30 ■ >40 ■ >50

Nurturing Talents

In addition to sourcing for talents, we also acknowledge the importance of nurturing them by offering abundant opportunities in development and training, in the hope that their talent can be fully unlocked, thereby benefit the Group's continual growth and success in return.

Employees who have been working for more than six months, without any record of misconduct and are aligned with the Group's culture and values can be promoted equally favourably. Promotion is also determined by results of performance appraisals.

Besides, recognising the significance of training such that we are able to catch up with the fast-growing internet industry and the everchanging market, our You Xue Tang (遊學堂), a platform to cultivate talents with information and technology, offers a wide range of training programs to enact our philosophies to share, to learn, to be passionate and to execute.

During the Reporting Period, we have arranged plenty of internal and external training programs in line with the Group's business goals and strategies, as well as employees' development plans. Examples include guidance in new regulations, data analysis, mind-mapping and risk assessment in fintech business.



Total number of training hours in 2017:

➤ 1,103.5 hours

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Caring Our Talents

Being a technology-based enterprise, we understand that human capital is our foremost property. Therefore, we strive to attract and retain talents by granting them competitive remuneration packages and benefits, together with creating a harmonious working atmosphere through a wide range of staff activities and events.

Strictly abiding by applicable laws and regulations including The Labour Law of the PRC (《中華人民共和國勞動法》), The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), The Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Regulation on the Administration of Housing Accumulation Funds (《住房公積金管理條例》), we provide employees in the PRC with social insurances which cover endowment, unemployment, medical, maternity and work-related injury, and housing provident fund. All employees are granted bereavement leave, marital leave, medical leave and maternity leave. Other benefits include, for example:

- Meal subsidies
- Attendance award
- Festive gifts
- Beverage subsidies
- Additional insurance
- Free fruits

Furthermore, we care about employees' work-life balance and organise an array of activities on a regular basis, for instance, themed birthday parties, clubs, sports activities and festive events. These activities can strengthen the bonding and create a harmonious relationship among employees and between the Group and employees.

We also care about employees' voices. We have set up a number of communication channels, ranging from meetings to progress reports to WeChat and to email. Every one of us is welcomed to express his/her views and concerns through these channels.

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HIGHLIGHTS OF STAFF ACTIVITIES

Annual Dinner



Dragon Boat Festival Fun Day



Summer Trip



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THEMED BIRTHDAY PARTIES



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Health and Safety

Apart from remuneration and benefits, we also lay great emphasis on employees' wellbeing by implementing health and safety measures in workplace. To illustrate, we provide our employees with additional group medical insurance and annual medical check. During the Reporting Period, we invited masseurs to give neck and shoulder massage to the ladies on Women's Day as a token of our gratitude. In terms of safety measures, fire drill is conducted annually. We also conduct inspection on fire equipment on a regular basis. In the Reporting Period, there were no work-related accidents or casualties within the Group.

Diversity and Equality

We value diversity and equality in workplace and recruit talents based on their competencies and qualifications. Being an inclusive employer, we strictly abide by all applicable laws and regulations regarding equality, diversity and anti-discrimination, and stress on equal opportunities not only in recruitment, but also in training, promotion, transferral, remuneration and benefits. We shall not tolerate any kinds of discrimination and harassment against our people. If such occasions arise, employees may bring them forward through mail. We shall investigate in the cases carefully and strive our best to prevent reoccurrence.

Labour Standards

Being a responsible corporate citizen, we are of uncompromising compliance with The Labour Law of the PRC prohibiting child and forced labour within the Group. New recruits are required to provide proof of identity to ensure no under-age labour is in place. In addition, our employee handbook has set out detailed the arrangements in respect of working hour, overtime work, leave and dismissal. Standard working hour is implemented within the Group, with a maximum of 8 hours per day and 40 hours per week. If overtime work is needed, employees should get approval in advance. They will receive compensatory leave afterwards. If any child or forced labour is discovered, we will investigate in and handle the case with profession. Improvement measures will be taken place within 90 working days.

Anti-corruption

The Group's commitment to cracking down on unethical business practices, including bribery, fraud and corruption can be reflected in our "Forgame Anti-Corruption Management Policy" (《Forgame 集團反舞弊管理制度》). Employees should report to us any suspected misconduct by phone or mail. Our internal audit department will enquire into the case carefully and implement correction measures in a professional and timely manner. Along with the above, code of ethics is also encapsulated in the employee handbook. We will make our best efforts to ensure employees' attention to the code and make it part of our everyday activities in order to create a positive corporate culture placing integrity and honesty on a high priority. During the Reporting Period, there was no litigation against the Group or its employees concerning corruption, bribery, fraud, extortion and money laundering.

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COMMITMENT TO OUR ENVIRONMENT

Taking up the role as a global corporate citizen, we are highly concerned about our impact on the environment and pledge to strike a balance between business development and environmental protection. In stringent compliance with applicable laws and regulations including but not limited to The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), we have formulated “Forgame Group Environmental Policy” to incorporate environmentally friendly measures regarding emission reduction and resource efficiency into daily operation. We will review and refine the policy from time to time to optimise the measures and push every one of us into routinising green initiatives to live a greener life.

Emission Reduction

As climate change has become a global concern, corporates should take immediate actions to reduce their carbon footprint. Being part of the community, we adopt a low-carbon business approach with various measures to reduce our emissions, including:

 **GHG Emissions:**
188 tCO²-eq

- Encouraging employees to take public transportation in place of private vehicles.
- Prohibiting smoking in office area and placing smoke-free signs across the office.
- Selling electronic waste (including computers, servers and phones) to second-hand buyers to extend their life cycles.
- Closely monitoring the amount of general refuse produced, predominantly paper and food waste, by sample weighing to optimise waste reduction measures.

Resource Efficiency

Using resources wisely and efficiently has always been a subject of great concern in this resource-constrained world. To conserve and alleviate the depletion of natural resources, we have adopted the following measures:

- Setting up a time controller for air-conditioners. They will be automatically turned off in non-working hour or when the occupancy rate in office is low.
- Keeping an optimum room temperature by setting the air-conditioners at 26°C .
- Installing automatic sensor taps in toilets to minimise waste of water.
- Promoting double-sided printing, paper reuse and recycling.
- Encouraging employees to bring their own dining utensils.
- Advocating communication by electronic means.
- Separating recyclable waste and waste that will impose secondary pollution. Recyclable waste such as plastic bottles, aluminium cans will be sold to second-hand recycler. Batteries and toner cartridges will be packed separately for further handling.

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Green Procurement

Green procurement is highly promoted within the Group. We mainly work with local suppliers to reduce greenhouse gas emissions brought by transportation. As of 31 December 2017, we had a total of 104 suppliers, among which 65 come from Guangzhou where our major business operates in. Others locate in different provinces in the PRC. In addition, electronic appliances with energy efficient label are prioritised.

Key Environmental Performances¹

Air Emissions	
Nitrogen oxides (NO _x)	1.389kg
Sulphur oxides (SO _x)	0 kg
Particulate matter (PM)	0.102 kg
Greenhouse Gas (GHG) Emissions	
Total	187.679 tCO ₂ -eq
Intensity	0.714 tCO ₂ -eq/employee
Scope 1: Direct emissions ²	3.409 tCO ₂ -eq
Scope 2: Energy indirect emissions ³	178.510 tCO ₂ -eq
Scope 3: Other indirect emissions ⁴	5.760 tCO ₂ -eq
Non-Hazardous Waste⁵	
Total	6.027 tonnes
Intensity	0.023 tonnes/employee
Electricity Consumption	
Total	338,673.77 kWh
Intensity	1,287.733 kWh/employee
Water Consumption	
Total	5,042.057 m ³
Intensity	19.171 m ³ /employee

¹ Data of our key environmental performances were generated from our game development business and internet micro-credit business in operation.

² In accordance with The Greenhouse Gas Protocol - A Corporate Accounting and Reporting Standard (Revised Edition), published by World Business Council for Sustainable Development and World Resources Institute, Scope 1 emissions included emissions from owned vehicles of the Group.

³ In accordance with The Greenhouse Gas Protocol - A Corporate Accounting and Reporting Standard (Revised Edition), published by World Business Council for Sustainable Development and World Resources Institute, Scope 2 emissions included those resulted from the generation of purchased or acquired electricity, heating, cooling and steam consumed within the Group.

⁴ Scope 3 emissions included water consumption, sewage treatment and paper waste disposal.

⁵ Due to our business nature, we were not aware of any significant generation of hazardous waste.

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COMMITMENT TO OUR COMMUNITY

Echoing our mission to bring enjoyment to millions of users, we also present our unwavering dedication towards bringing positive influence to the wider community through devoting ourselves to community activities.

Tree Planting in Baiyun Mountain

We are committed to taking low-carbon initiatives to help create a better and greener environment. Our commitment can be reflected not only in business operations, but also in our engagement in green activities beyond office.



In March 2017, we brought a group of employees and their children to Baiyun Mountain in Guangzhou for a tree planting activity to help reduce carbon footprint. Although our contribution was limited, we hope that this activity allowed us not only to plant seeds in soil, but also to plant the seeds of sustainability education by teaching the children the importance of protecting our ecosystem.

Youth Creative Workshop



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As a people-oriented enterprise, we fully support our talents by offering abundant training opportunities. By the same token, we also place high importance on nourishing the next generation by taking part in KPMG Youth Creative Workshop, aiming at giving youngsters exposure to opportunities in workplace. We have been participating in the workshop for two consecutive years, during which we arranged company visit for over 50 youngsters. Through the workshop, youngsters could gain insights into our industry and game development process, and experience art design in games.

Elderly Home Visit

In July, we took part in the visit to an elderly home arranged by voluntary agency in Guangzhou. The activity was a great success with our care-giving employees volunteering to spread their love and care to the elderly.



In recognition of our continuous commitment to serve the community, we are proud to announce that the Group was awarded 2016-17 China Internet Community Award by Internet Society of China. The award aims at giving a round of applause to internet enterprises with outstanding performance in community investment. Looking forward, taking advantage of our influence in the internet industry, we shall remain committed to undertaking corporate social responsibility to help create a better society.

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SEHK ESG GUIDE CONTENT INDEX

A. Environmental		Chapter/Disclosure	Page
Aspect A1: Emissions			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Commitment to Our Environment	213
KPI A1.1	The types of emissions and respective emissions data.	Key Environmental Performances	214
KPI A1.2	Greenhouse gas emissions in total and where appropriate, intensity.	Key Environmental Performances	214
KPI A1.3	Total hazardous waste produced and where appropriate, intensity.	Key Environmental Performances	214
KPI A1.4	Total non-hazardous waste produced and where appropriate, intensity.	Key Environmental Performances	214
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Emission Reduction	213
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Resource Efficiency	213
Aspect A2: Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc..		Commitment to Our Environment	213
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Key Environmental Performances	214
KPI A2.2	Water consumption in total and intensity.	Key Environmental Performances	214
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Emission Reduction and Resource Efficiency	213
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Resource Efficiency	213
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced.	N/A	

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A. Environmental		Chapter/Disclosure	Page
Aspect A3: The Environment and Natural Resources			
General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		N/A	
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	N/A	
B. Social			
<i>Employment and Labour Practices</i>			
Aspect B1: Employment			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Commitment to Our People	207
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Sourcing for Talents	207-208
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	The Group is not disclosing during the Reporting Period.	
Aspect B2: Health and Safety			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to providing a safe working environment and protecting employees from occupational hazards.		Health and Safety	212
KPI B2.1	Number and rate of work-related fatalities.	Health and Safety	212
KPI B2.2	Lost days due to work injury.	Health and Safety	212
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety	212

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B. Social		Chapter/Disclosure	Page
Aspect B3: Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Nurturing Talents	208
KPI B3.1	The percentage of employees trained by gender and employee category.	The Group is not disclosing during the Reporting Period.	
KPI B3.2	The average training hours completed per employee by gender and employee category.	The Group is not disclosing during the Reporting Period.	
Aspect B4: Labour Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		Labour Standards	212
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards	212
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labour Standards	212
Aspect B5: Supply Chain Management			
General Disclosure Policies on managing environmental and social risks of the supply chain.		Commitment to Our Supply Chain	207
KPI B5.1	Number of suppliers by geographical region.	Green Procurement	214
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Commitment to Our Supply Chain	207

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B. Social		Chapter/Disclosure	Page
Aspect B6: Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Commitment to Our Customers	204
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A	
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	N/A	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property	205
KPI B6.4	Description of quality assurance process and recall procedures.	Quality Assurance	204
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Privacy Protection	206
Aspect B7: Anti-corruption			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Anti-Corruption	212
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption	212
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption	212
Community			
Aspect B8: Community Investment			
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Commitment to Our Community	215
KPI B8.1	Focus areas of contribution.	N/A	
KPI B8.2	Resources contributed to the focus area.	Commitment to Our Community	215-216

