Mobile Internet (China) Holdings Limited
移動互聯（中國）控股有限公司

(Formerly known as China Packaging Holdings Development Limited 中華包裝控股發展有限公司)

(Incorporated in the Cayman Islands with limited liability)

Stock Code:1439

Contents

Corporate Profile

Mobile Internet (China) Holdings Limited ("Mobile Internet" or the "Group") is a leading innovator in mobile gaming and packaging. The Group has a vision to transform itself from traditional packaging business to be at the forefront of the rise of Chinese consumerism – mobile gaming business, actively expands and leverages its business in the field of Internet technology and related to bring highest interests to stockholders. After successfully acquired Cable King Limited, a mobile game developer based in the silicon-valley of China, Xiamen in 2016, the Group registered a significant performance in the field of the gaming industry. Mobile Internet is engaged in two major business segments: the mobile gaming segment based in Xiamen and the packaging segment based in Jiangxi. The Group was successfully listed on the Hong Kong Stock Exchange in 2014 with a stock code of 1439.

Mobile Internet has a track record of delivering innovative and industry-leading products and will continue this culture after the acquisition of the mobile gaming business. The Group has consistently adhered to the strategy of self-developing mobile games and browser games while also enhancing cooperation with diverse game platforms.

In packaging segment, apart from the paper-based packaging products, the Group partnered with Wuhan University to develop its proprietary stone-paper packaging products that are environmentally friendly, ultra-durable, waterproof and fireproof as well as easy to write on.

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Chen Hong Cai *(Chairman)*
Mr. Sun Shao Hua
Ms. Zheng Li Fang

Independent Non-executive Directors
Mr. Liu Da Jin
Mr. Ma Yiu Ho, Peter
Mr. Wu Ping

BOARD COMMITTEES

Audit Committee
Mr. Ma Yiu Ho, Peter *(Chairman)*
Mr. Liu Da Jin
Mr. Wu Ping

Remuneration Committee
Mr. Liu Da Jin *(Chairman)*
Mr. Wu Ping
Mr. Sun Shao Hua

Nomination Committee
Mr. Chen Hong Cai *(Chairman)*
Mr. Liu Da Jin
Mr. Wu Ping

COMPANY SECRETARY
Mr. Hu Chung Ming (FCPA)

AUTHORISED REPRESENTATIVES
Mr. Sun Shao Hua
Mr. Hu Chung Ming

AUDITORS
HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISER
TC & Co.

REGISTERED OFFICE
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
Hong Sheng Industrial Park
Fengxin Industrial Zone
Yichun City, Jiangxi Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit 2604, 26th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

STOCK CODE
01439

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
Agricultural Bank of China (Fengxin Sub-branch)
China Construction Bank (Fengxin Sub-branch)

COMPANY'S WEBSITE
www.hs-pack.com

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chen Hong Cai (陳宏才), aged 45, is our Chairman and Executive Director. He was appointed on 17 January 2018. He is also the chairman of the Nomination Committee. Mr. Chen is primarily responsible for the management, market and business development, product development, production and operation management of the packaging segment of our Group. Mr. Chen has over 10 years of management experience. Mr. Chen graduated from the Nanjing Audit University (南京審計大學) with a Bachelor Degree in International Trade in 1995. Prior to joining the Group, Mr. Chen has been the deputy general manager of the sales department of Jiangxi Fushan Zhongpinxin Packaging Co. Ltd. (江西福山眾品鑫包裝有限公司) from 2013 to 2017. Before that, he served as the deputy general manager of the production department in Essel Packaging (Guangzhou) Limited (愛索爾(廣州)包裝有限公司) from 2000 to 2013.

Ms. Zheng Li Fang (鄭麗芳), aged 34, was appointed as an Executive Director of our Company on 18 March 2016. She is responsible for overseeing the operation, market and business development of the mobile gaming segment of our Group. Ms. Zheng graduated from the Fuzhou University (福州大學) with a Bachelor Degree in Enterprise Management in 2008. Prior to joining the Group, Ms. Zheng served as a general manager of the Xiamen Dahei Technology Co. Ltd. (廈門大黑科技有限公司) from 2013 to 2015. Before that, she served as an assistant president in the Gamewave Interactive (Xiamen) Technology Co. Ltd. (趣遊(廈門)科技有限公司) from 2009 to 2013.

Mr. Sun Shao Hua (孫少華), aged 47, is our founder and Executive Director. He was appointed on 13 December 2013. Mr. Sun is primarily responsible for the overall operation, strategic planning and business development of our Group. Mr. Sun has more than 15 years of experience in the packaging industry and corporate management. Mr. Sun established the business of our Group in 2006 and has been heading the Group since its incorporation. Mr. Sun was previously the standing director of the 7th China Packaging Federation Council (中國包裝聯合會第七屆理事會) in 2011. Mr. Sun was awarded the 5th Lake Poyang Printing Development Contribution Award (第五屆鄱陽湖(鴻聖)杯印刷發展貢獻獎) by the Association of Printing and Copying Industry in Jiangxi Province (江西省印刷複製業協會) in December 2011. Mr. Sun completed a postgraduate economics course at Jiangxi University of Finance and Economics (江西財經大學) in July 2005 and graduated from the Central Communist Party School Correspondence Institute (中共中央黨校函授學院) in December 2006, majoring in economic management. Mr. Sun completed the 2006 Chief Executive Course at Xiamen University School of Management in August 2007 and the GEM Financing and Private Fund Executive Course at Fudan University in April 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Da Jin (劉大進), aged 53, was appointed as an Independent Non-executive Director on 13 December 2013. Mr. Liu is also a member of the Audit Committee and the Nomination Committee and the chairman of the Remuneration Committee. Mr. Liu has been a non-practicing member of the Chinese Institute of Certified Public Accountants since June 1996. He has also been the consultant of the Xiamen City Economic Management Consultancy Association (廈門市經濟管理諮詢協會) since August 2008 and the council member of the Xiamen City Accounting Association (廈門市會計學會) since March 2005. Mr. Liu graduated from the Central University of Finance and Economics (中央財經大學) (originally named Central Institute of Finance and Banking 中央財政金融學院) in June 1989, majoring in accounting. He then obtained a postgraduate certificate from the Xiamen University Postgraduate School in September 1992. Mr. Liu worked as a teaching assistant at Jimei Finance and Economics School (集美財經學校) from August 1984 to August 1987. Mr. Liu then served as the deputy director and instructor at the Department of Financial Management at Jimei College of Finance (集美財政專科學校) from July 1989 to August 1995. Mr. Liu worked as a certified accountant at the Xiamen Jiyou Accounting Firm (廈門集友會計師事務所) from June 1995 to May 1999. Mr. Liu worked in various faculties of the Jimei University (集美大學) since September 1995 and is currently the Dean of management department of Chengyi University College (誠毅學院). On 12 July 2018, Mr. Liu was also appointed as a professor of the Faculty of Management of the Chengyi University College, Jimei University (集美大學誠毅學院). Mr. Liu has been an independent non-executive director of China Shenghai Food Holdings Limited (stock code: 1676) since 22 June 2017, the shares of which are listed on the Stock Exchange.

Biographical Details of Directors and Senior Management

Mr. Ma Yiu Ho, Peter (馬遙豪), aged 54, was appointed as an Independent Non-executive Director on 13 December 2013. He is also the chairman of the Audit Committee. Mr. Ma is currently the financial controller of the Chyau Fwu Properties Limited, a company principally engaged in property development and hospitality. He has been a member of the Hong Kong Institute of Certified Public Accountants since February 1990 and a fellow member of the Association of Chartered Certified Accountants (UK) since April 1994. Mr. Ma obtained a Master Degree of Business Administration from the Hong Kong University of Science and Technology in November 1995. He is also a member of the Hong Kong Institute of Directors since December 2015. He has over 20 years of experience in the finance and accounting field and was the financial controller and company secretary of The Hong Kong Parkview Group Limited (now named as Joy City Property Limited, stock code: 207) and the financial controller of VODone Limited (now named as V1 Group Limited, stock code: 82), shares of these two companies are listed on the Stock Exchange. He had also served as the chief financial officer of Superior Fastening Technology Limited, a Singapore listed company. Mr. Ma had also worked for the Standard Chartered Equitor Trustee HK Limited and the Hong Kong Government's Audit Department. He was an independent non-executive director of the China Ocean Fishing Holdings Limited (formerly known as Sky Forever Supply Chain Management Group Limited) (stock code: 8047) from July 2014 to May 2015, Huisheng International Holdings Limited (stock code: 1340) from February 2014 to July 2017 and Convoy Global Holdings Limited (formerly known as Convoy Financial Holdings Limited) (stock code: 1019) from March 2010 to July 2018. He is currently and has been an independent non-executive director and chairman of the audit committee of TEM Holdings Limited (stock code: 8346) since 20 April 2016, Royal Catering Group Holdings Company Limited (stock code: 8300) since 21 July 2016 and Indigo Star Holdings Limited (stock code: 8373) since 24 October 2017.The shares of these six companies are listed on the Stock Exchange.

Mr. Wu Ping (吳平), aged 56, was appointed as an Independent Non-executive Director on 13 December 2013. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Wu completed a monetary banking correspondence course at the Jiangxi University of Finance and Economics (江西財經大學) in July 1998. Mr. Wu obtained an intermediate level of finance qualification granted by the Ministry of Personnel of the PRC in November 2000. Mr. Wu held various positions in the Yichun branch and Fengxin branch of the China Construction bank from 1981 to 2012, including serving as the manager of the Credit Approval Commission of the Yichun branch, the manager of the Credit Approval Department of the Fengxin branch and the branch manager of the Fengxin branch.

SENIOR MANAGEMENT

Mr. Lv Hanbing (呂寒冰), aged 37, joined the Group in April 2016 as the Chief Technical Officer. He is responsible for leading the game development team of the Group. In 2004, he graduated in the University of Electronic Science and Technology of China (電子科技大學) with a Bachelor Degree in Computer Science. He was appointed by Microsoft as the Honorable Community Star (社區之星) and was qualified with Oracle and SCJP accreditation. He has over 10 years of experience in information technology industry.

Mr. Li Jian Jie (李建捷), aged 46, joined the Group in March 2013 as the Director of Research and Development. He is responsible for the research, development and design of the Group. In July 1993, he completed a 2-year arts programme at the Sanming Normal College (三明師範專科學校). He has over 9 years of experience in the design and advertising industry.

Mr. Hu Chung Ming (胡宗明), aged 46, joined the Group in August 2013 as the Chief Financial Officer and the Company Secretary of the Company. He is responsible for the planning and management of accounting, financial related matters and corporate reporting of the Group. In December 1996, he graduated in the University of Queensland, Australia, with a Bachelor Degree in Commerce. He is a member of the Australian Society of Certified Practising Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company, he had served international audit firms for three years and listed companies as financial controller and company secretary for more than 11 years. He is currently an Independent Non-executive Director of Leyou Technologies Holdings Limited (formerly known as Sumpo Food Holdings Limited) (stock code: 1089), the shares of which are listed on the Stock Exchange.

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Mobile Internet (China) Holdings Limited ("Mobile Internet" or the "Company"), I would like to present the results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

In 2018, both our packaging and mobile gaming businesses faced a business environment that was unprecedentedly challenging. With our packaging business, competition intensified after the U.S. levied tariffs on China as part of the ongoing US-China Trade War, causing many export-oriented packaging peers to shift their focus from export to domestic markets. Additionally, continuously rising raw material prices caused us to choose between squeezing our margins and losing sales orders. With our mobile gaming business, in 2017 the Chinese government started to assert its control over the gaming market by requiring all publishers to obtain approval from the State Administration of Press, Publication, Radio Film and Television and the Ministry of Culture & Tourism before publishing games in China. Beginning in March 2018, the Chinese government halted the licensing of new games due to concerns over violent games and gaming addiction among minors. This sudden halt in licensing for new game directly affected us, as we were unable to release our new games we had expected to drive growth during the year. As a result, the financial performance of the Group's different business segments was adversely affected.

Overall, 2018 was a difficult period. Our Group's total revenue for the year ended 31 December 2018 was RMB690.8 million, a decrease of 32.3% year on year. The decrease was mainly due to the plunge in revenue in both our packaging and mobile gaming businesses. Our mobile gaming business revenue shrunk to RMB235.4 million, and revenue from our packaging business shrunk to RMB455.4 million. The Group's net loss attributable to owners of the Company for the year was RMB345.9 million as compared to a net loss of RMB50.7 million for the previous year.

In 2018, the Group spent more than RMB94.8 million on acquisition and installation of new printing production lines and technology upgrades for one of our existing production lines. Part of this expenditure always went to installing new environmental protection facilities to comply with stringent environmental requirements. We are pleased to report that our production facilities are now up to national standards, and our exhaust and sewage are now properly treated.

Looking ahead, the Group remains cautiously optimistic for 2019. The global economy is expected to see mild growth, and the Chinese government is likely to launch economic easing measures that should help drive consumption. However, whether the US-China Trade War will have any further impact on the Chinese economy and packaging market pricing trends remains to be seen. Additionally, the licensing of new game resumed at the end of 2018. However, approvals have been gradual, with a fraction of the number of new games being approved as compared to the large number of pending applications. In order to avoid becoming overly dependent on one market, we will explore opportunities to penetrate new overseas markets in Southeast Asia by introducing our existing and new games to overseas players, and providing them with a unique game-playing experience.

The Group will continue to seek business opportunities to diversify our business and allow us to achieve more stable long-term growth, a healthy balance sheet, and satisfactory returns.

I would like to take this opportunity to express my sincere gratitude to all fellow directors, management, and our staff for their dedication and contribution to our Group's development. I would also like to thank all our shareholders for their trust and continuous support over a challenging 2018. We remain committed to optimizing our business to generate strong returns for our shareholders.

Mobile Internet (China) Holdings Limited
Chen Hong Cai
Chairman and Executive Director

Jiangxi Province, the PRC, 29 March 2019

Corporate Governance Report

The Board is committed to maintaining a good standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors' confidence and maximizing shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with the increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

The Company has adopted the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board considers that up to the date of this annual report, in the opinion of the Board, save as deviation from code provision A.2.1 (see section "Chairman and Chief Executive" below), the Company has complied with the CG Code. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the evolving regulatory requirements and to meet the rising expectations of the shareholders and other stakeholders.

CORPORATE GOVERNANCE PRACTICES

(A) Board of Directors

Responsibilities and Delegation

The Board is responsible for the leadership and control of the Company, overseeing the Group's businesses, strategic decisions, internal control, risk management systems and monitoring the performance of the senior management. The management is responsible for the daily operations of the Group under the leadership of the Chairman. The Directors have the responsibility to act objectively in the interests of the Company.

The Board has delegated various responsibilities to the Board committees including the Audit Committee, the Remuneration Committee and Nomination Committee. Further details of these Committees are set out below in section B of this corporate governance report.

Board Composition

The Board members during the year ended 31 December 2018 and up to the date of this report are as follows:

Executive Directors:

Mr. Chen Hong Cai	(appointed on 17 January 2018) Chairman of the Board and Nomination Committee
Mr. Sun Shao Hua	Member of the Remuneration Committee
Ms. Zheng Li Fang	
Mr. Chen Wei Wei	(resigned on 17 January 2018)

Independent Non-Executive Directors:

Mr. Liu Da Jin	Chairman of the Remuneration Committee and Member of the Audit Committee and Nomination Committee
Mr. Wu Ping	Member of the Nomination Committee, Audit Committee and Remuneration Committee
Mr. Ma Yiu Ho, Peter	Chairman of the Audit Committee

The Board currently comprises three executive Directors and three independent non-executive Directors from different business and professional fields. The profiles of each Director are set out in the "Biographical Details of Directors and Senior Management" section in this annual report. The Directors, including the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions.

The Board has adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the board.

The Company has received annual confirmation from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operation and financial performance of the Group. Ad-hoc meetings will also be convened when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors.

Agenda and Board papers together with all appropriate, complete and reliable information will be provided to all the Directors before meetings. All the Directors will be provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for board meetings. The company secretary of the Company is responsible to keep the minutes of board meetings and meetings of Board committees. All minutes are open for inspection by any Director at reasonable time on reasonable notice.

For the financial year ended 31 December 2018, eight Board meetings were held.

The Company's Articles of Association 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. According to current Board practices, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting.

Chairman and Chief Executive

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not separately have any officer with the title of "chief executive". Mr. Chen Hong Cai, the Chairman of the Group, is also responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a conducive manner. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions, complement the role of the chairman and chief executive. The Board is of the view that this structure provides the Group with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of shareholders' benefits.

Appointments, Re-election and Removal of Directors

Our executive Directors Mr. Sun Shao Hua and Ms. Zheng Li Fang have renewed their service contracts with the Company for a period of three years commencing 13 December 2016 and 18 March 2019 respectively. Mr. Chen Hong Cai has entered into a service contract with the Company for a period of three years commencing 17 January 2018. All of their appointments are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Each of the independent non-executive Directors has been re-appointed for a term of three years commencing from 13 December 2016, and are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

In accordance with the Company's Articles of Association, all Directors shall be subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. In accordance with the Articles of Association, Ms. Zheng Li Fang and Mr. Wu Ping will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

Training Induction and Continuing Development of Directors

Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Each newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Directors have provided to the Company their records of continuous professional development during the year ended 31 December 2018.

During the year ended 31 December 2018, all Directors have attended training courses and read articles and materials in relation to corporate governance, Listing Rules update or financial markets update arranged by professional firms/institutions. Besides, the company secretary also conducted briefings on corporate governance, directors' duties and responsibilities and provided materials for Listing Rules amendments to all Directors for their reference.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

When the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors in advance.

(B) Board Committees

The Board has established three committees, namely the Audit Committee, Nomination Committee and Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company and the Stock Exchange.

The majority of the members of each Board committee are independent non-executive Directors.

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.

Audit Committee

The primary duties of the Audit Committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements and provide material advice in respect of financial reporting and oversee the internal control procedures of the Company. The Audit Committee consists of three independent non-executive Directors, namely Mr. Ma Yiu Ho, Peter (Chairman), Mr. Liu Da Jin and Mr. Wu Ping. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee has reviewed the Company's financial statements and the Group's consolidated financial statements for the year ended 31 December 2018 and the interim financial statements for the six months ended 30 June 2018, including the accounting principles and practices adopted by the Company and the Group.

The Audit Committee held three meetings during the year ended 31 December 2018, of which all meetings with external auditors' presence, and all members of the Audit Committee attended the meetings. At the meetings, it reviewed the financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors. No major issue on the internal control system of the Group has been identified.

The Company had established a whistleblowing policy and system for employees to raise concerns of possible improprieties where all concerns are addressed to the Audit Committee.

Remuneration Committee

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to our Directors and senior management and to ensure none of the Directors determine their own remuneration. The emoluments of executive Directors are determined based on their skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration the Company's performance and the prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that they are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in their respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. The Remuneration Committee consists of two independent non-executive Directors, namely Mr. Liu Da Jin (Chairman) and Mr. Wu Ping and one executive Director, namely Mr. Sun Shao Hua.

For the year ended 31 December 2018, two meetings were held and all members attended the meetings.

Nomination Committee

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; to identify individuals suitably qualified to become Board members; to assess the independence of independent non-executive Directors; and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The Nomination Committee consists of two independent non-executive Directors, namely Mr. Liu Da Jin and Mr. Wu Ping and one executive director, namely Mr. Chen Hong Cai (Chairman).

The Nomination Committee held three meetings during the year ended 31 December 2018 and all members of the Committee attended the meetings.

Board Diversity Policy

The Company has adopted a board diversity policy (the "Diversity Policy") which sets out the approach to achieve diversity of the Board. The Company embraces the benefits of having a diverse Board to enhance the quality of its performance.

The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, professional knowledge, personal integrity and time commitments.

In identifying and selecting suitable candidates to serve as a director of the Company, the Nomination Committee would consider the above criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board.

The Board will consider setting measurable objectives to implement the Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Board has not set any measurable objectives.

The Nomination Committee will review the Diversity Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Function

The Board is responsible for performing the functions set out in code provision D.3.1 of the Corporate Governance Code.

The Board would review the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the Corporate Governance Code and disclosure in its Corporate Governance Report.

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company may from time to time and as the circumstances require provide updated written training materials relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

Number of meetings and attendance records

The attendance of individual members of the Board and other Board Committees meetings for the financial year ended 31 December 2018 is set out in the table below:

	Meeting attended/held			
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Chen Hong Cai (appointed on 17 January 2018)	7/8	N/A	N/A	2/3
Sun Shao Hua	8/8	N/A	2/2	N/A
Zheng Li Fang	8/8	N/A	N/A	N/A
Chen Wei Wei (resigned on 17 January 2018)	0/8	N/A	N/A	0/3
Independent non-executive Directors				
Liu Da Jin	8/8	3/3	2/2	3/3
Wu Ping	8/8	3/3	2/2	3/3
Ma Yiu Ho, Peter	8/8	3/3	N/A	N/A

(C) Accountability and Audit

Directors' Responsibility in respect of the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for the year ended 31 December 2018 with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and suitable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable; and the financial statements are prepared on a going concern basis.

Management had provided monthly updates to Directors for giving a balanced and understandable assessment of the Company's performance, position and projects to enable the Directors to discharge their duties.

The Board is not aware of any material uncertainties relating to the events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

Auditor's Remuneration

For the year ended 31 December 2018, the analysis of the remuneration payable to the external auditor of the Company, HLB Hodgson Impey Cheng Limited, in respect of audit services and non-audit services is set out below:

	Amount (RMB'000)
Audit services	**1,097**
Non-audit services	–
Total	**1,097**

The Audit Committee will recommend the reappointment of HLB Hodgson Impey Cheng Limited for audit service, and consider the engagement of the non-audit services to ensure the independence and objectivity of audit service.

(D) Risk Management and Internal Control

The Board has overall responsibility for the internal control and risk management systems of the Company. Internal controls are used by the Board to facilitate the effectiveness and efficiency of operations, safeguard the investment of Shareholders and assets of the Company and to ensure compliance with relevant statutory and regulatory requirements. The Company's internal control policies are designed to provide reasonable, but not absolute, assurance against material misstatements and help the Board identify and mitigate, but not eliminate, risk exposure. The policies and procedures of internal controls (which include financial, operational and compliance controls) are considered to be adequate and effective based on the annual review conducted by the Board through the Audit Committee.

In light of the size and scale of the Group's businesses, the Group currently does not have an internal audit department. The Board will review and consider to establish such department as and when it thinks necessary. As such, the Board, supported by the Audit Committee, is directly responsible for risk management and internal control systems of the Company and for reviewing its effectiveness. In order to maintain a high standard of corporate governance, the Company engaged an external independent consultant with professional staff in possession of relevant expertise to assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems. The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended in the report to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthen the Company's control environment and processes. Based on the findings and recommendations of the report as well as the comments of the Audit Committee, the Board considered the internal control and risk management systems effective and adequate.

(E) Dissemination of Inside Information

The Group regulates the handling and dissemination of inside information according to internal procedures and policy so as to ensure inside information remains confidential until the disclosure and publication of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

The Board is responsible for approving the policy on disclosure of inside information which aims at providing guiding principles, practices and procedures to assist employees and officers of the Group in (i) relaying inside information to the Board to enable it to make timely decisions on disclosure, if necessary; and (ii) communicating with the Group's stakeholders, in ways which are in compliance with the SFO and the Listing Rules.

An employee who becomes aware of a matter or event that he/she considers to be material or inside information shall report to his division/department head who will assess the sensitivity of the relevant information and, if considered appropriate, escalate and report to the Board and/or the company secretary of the Company.

(F) Company Secretary

The Company Secretary, Mr. Hu Chung Ming, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed. The biographical details of Mr. Hu is set out in the section headed "Biographical Details of Directors and Senior Management". For the year ended 31 December 2018, Mr. Hu has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

(G) Shareholders' Rights

The Board welcomes shareholders to present their views and shareholders may at any time submit their questions and concerns about the Group. Enquiries may be put to the Board or senior management by contacting the Company Secretary through our shareholders' email at info@hs-pack.com or by phone at 852-3468 3666 or directly by raising questions at the general meeting of the Company. Shareholder(s) holding not less than one-tenth of the Company's paid up capital may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office and addressing to the Company Secretary at the Company's principal place of business in Hong Kong. The extraordinary general meeting will be held within 2 months after the deposition of such requisition.

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Any Shareholder may appoint a proxy or representative to attend the general meeting, and they are entitled to exercise the same voting rights in the meeting.

(H) Investor Relations and Communication with Shareholders

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. To promote effective communication, the Company maintains a website at http://www.hs-pack.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted.

The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through AGMs or other general meetings to communicate with the shareholders. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf.

The forthcoming AGM of the Company will be held on 31 May 2019. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

Constitutional Documents

There was no change in the constitutional documents of the Company during the year ended 31 December 2018.

BUSINESS REVIEW

The Group is currently engaged in two business segments, (i) mobile gaming business and (ii) packaging business. During the year under review, the Group has continued to focus on the strategy to diversify into the fast growing PRC gaming business. It offers free-to-play mobile, browser and client-based online games. Apart from the mobile gaming business, the Group also continued to engage in the manufacturing and sales of paper-based packaging products with operation in Jiangxi Province in the PRC. Our products are generally used in packaging of a wide variety of products such as food and beverage, glass and ceramics articles, metal hardware and chemicals products, bamboo articles, shopping bags, etc.

Mobile gaming business

During the year, the gaming industry in China has been significantly disrupted by a new policy that was implemented in March, resulting in a sudden halt in the licensing of new games. This is mainly based on the government concerns about the children health and safety – in particular, concerns over violent games and gaming addiction among minors and also reducing the risk of myopia for children. The government is asserting its control over the thriving Chinese gaming market which indicated that, in general, fewer new games will be licensed in the future and children's daily playtime may be restricted. Not until late of December has the licensing of new game resumed. The unexpected licensing freeze has impacted the mobile gaming market more than other segments as it is more dependent on a steady stream of new titles. As a result, without the release of new game, the revenue decreased sharply as compared to previous year. This has posed unprecedented challenges for the Group's mobile gaming business.

Despite the headwind, Cable King Group has continued to develop new games based on its strong technical and game development teams. During the year, it has officially launched a new mobile game, namely, Hammer of Odin (奧丁之錘) in January 2018 before the halting of licensing. In May 2018, it also launched a HTML5 game, namely, Myth (天旗) in trail mode due to the pending of licensing from the State Administration of Press, Publication, Radio Film and Television of the PRC. It is subject to the approval of the industry regulator before it can be officially launched. The revenue from mobile gaming segment was approximately RMB235.4 million, representing approximately 34.1% of the total revenue of the Group. The decrease in revenue was mainly attributable to (i) the shrinking of the contribution from three old games, namely, legend of the Journey to the West (大聖傳說), Heroes of the Imperial Empire (帝國英雄) and Legend of the Reign of the Assassins (劍雨傳說) and (ii) only one new game, namely, Hammer of Odin (奧丁之鋒) was officially launched during the year.

Packaging business

With the effects of the intense tariffs levied upon China from the recent US-China Trade War, China's export volume has fallen sharply during the year. This has caused pressure to our export-oriented packaging peers over their idle capacity released from the decrease in export goods. As a result, they intensified the already competitive domestic-oriented packaging industry during the year.

On the other hand, the Chinese government continued to promote economic and environmental development reforms and strictly implemented environmental protection regulations. It has strengthen control over the reduction in volume of imported waste paper and strictly implement environmental protection regulations in the domestic paper industry by aggressive removal of the outdated production capacities. This has led to a tightening supply of imported waste paper and domestic produced paper. As a result, occasional under-supply in the market has caused the average price of raw paper remained high during the year. In face of such soaring raw material cost and intense competition, the Group recorded sales volume of packaging products of approximately 110.4 million square meters, representing a year on year decline of 39.4%. The Group's revenue from packaging segment has declined by 32.9% with the gross profit margin dropped 4.4% to 16.7% as compared to last year.

In 2018, the Group spent more than RMB94.8 million on acquisition and installation of three new printing production lines and technological improvements for one of our existing production lines, new environmental protection facilities were installed as well to comply with the stringent environmental policy. Our production facilities are now up to national standards, and our exhaust gas and sewage are now properly treated, guaranteeing the quality of our environmental control measures.

FINANCIAL REVIEW

The revenue for the year ended 31 December 2018 was approximately RMB690.8 million, representing a decrease of approximately RMB329.2 million or approximately 32.3% as compared to that of approximately RMB1,020.0 million in 2017. The decrease in revenue was attributable to (i) revenue from our packaging segment deteriorated due to the challenging business environment encountered in the packaging business. The sales volume of packaging products plunge sharply from approximately 182.1 million square meters in 2017 to approximately 110.4 million square meters in 2018; and (ii) revenue from our mobile gaming segment has shrunk due to the pending of our release of new games caused by the freezing approvals and banning titles by the industry regulator during the year.

The following table set out a breakdown of our revenue by product categories and their relative percentages of our total revenue during the year.

Revenue by products

	2018		2017	
	RMB'000	% of Total	RMB'000	% of Total
Flexo-printed cartons	195,594	28.3	318,154	31.2
Offset-printed cartons				
– Traditional paper-based cartons	111,316	16.1	169,663	16.6
– Stone-paper based cartons	148,451	21.5	190,832	18.7
Sub-total	259,767	37.6	360,495	35.3
Packaging segment	455,361	65.9	678,649	66.5
Mobile gaming segment	235,389	34.1	341,363	33.5
Total	690,750	100.0	1,020,012	100.0

Packaging segment

Flexo-printed cartons

The Group's flexo-printed carton segment targeted food and beverage companies as its main customers. The goal is to provide products of good quality, load capacity and protection capabilities. Revenue from sales of flexo-printed cartons for 2018 was approximately RMB195.6 million (2017: approximately RMB318.2 million), which accounted for 28.3% (2017: approximately 31.2%) of our total revenue. The revenue from flexo-printed cartons decreased sharply due to our increase in average selling price in coping with the surge of paper cost.

Offset-printed cartons

The Group's offset-printed carton segment includes traditional paper based cartons and stone-paper based cartons. Revenue from sales of offset-printed cartons for the year ended 31 December 2018 was approximately RMB259.8 million (2017: approximately RMB360.5 million), which accounted for approximately 37.6% (2017: approximately 35.3%) of our total revenue. The decrease in RMB100.7 million or approximately 27.9% was mainly due to the decrease in sales of both traditional paper-based cartons and stone-paper based cartons resulted from the intense market competition.

Management Discussion and Analysis

Revenue by product categories of our customers (Packaging segment)

	2018 RMB'000	%	2017 RMB'000	%
Food and beverage	140,810	30.9	242,205	35.7
Glass and ceramics articles	41,870	9.2	75,710	11.2
Metal hardware and chemical products	52,374	11.5	66,997	9.9
Bamboo articles	11,996	2.6	13,917	2.0
Department stores	79,431	17.5	100,647	14.8
Others (Note)	128,880	28.3	179,173	26.4
Total	455,361	100.0	678,649	100.0

Note: Other products mainly include stationary, energy and electronic products, textile and pharmaceutical products.

The Group's main customers are manufacturers of food and beverage in the PRC. For the year ended 31 December 2018, revenue from food and beverage manufacturers was approximately RMB140.8 million (2017: 242.2 million), representing approximately 30.9% (2017: 35.7%) of the revenue of packaging segment.

Mobile gaming segment

During the year ended 31 December 2018, revenue from mobile gaming segment was approximately RMB235.4 million (2017: RMB341.4 million), accounting for approximately 34.1% of the total revenue (2017: 33.5%). The decrease in revenue contributed by the mobile gaming segment was mainly attributable to (i)the lack of new games launched during the year due to the sudden halt in licensing of new games by the industry regulator; and (ii) the shrinking of contribution from some of the old games.

Revenue by games (Mobile gaming segment)

	2018 RMB'000	%	2017 RMB'000	%
Legend of the Journey to the West (大聖傳説)	14,288	6.1	75,699	22.2
Heroes of the Imperial Empire (帝國英雄)	3,883	1.6	39,449	11.6
Legend of the Reign of the Assassins （劍雨傳説）	46,183	19.6	144,168	42.2
Swordsman (七絕)	69,688	29.6	35,828	10.5
War of Heroes (天天打魔獸)	55,065	23.4	32,329	9.5
Hammer of Odin (奧丁之錘)	43,889	18.7	–	–
Others*	2,393	1.0	13,890	4.0
Total	235,389	100.0	341,363	100.0

*Note: Others represent the commission received from the operation of certain web games developed by other game developers.

	2018 RMB'000	2018 %	2017 RMB'000	2017 %
Self-developed games	177,931	75.6	295,144	86.5
Licensed games	57,458	24.4	46,219	13.5
Total	235,389	100.0	341,363	100.0

GROSS PROFIT AND GROSS PROFIT MARGIN

	2018 RMB'000	2018 GP margin(%)	2017 RMB'000	2017 GP margin(%)
Flexo-printed cartons	25,878	13.2	50,045	15.7
Offset-printed cartons				
– Traditional paper-based cartons	15,060	13.5	31,674	18.7
– Stone-paper based cartons	35,221	23.7	61,337	32.1
Sub-total	50,281	19.4	93,011	25.8
Packaging segment	76,159	16.7	143,056	21.1
Mobile gaming segment	89,487	38.0	239,003	70.0
Total	165,646	24.0	382,059	37.5

The overall gross profit for the Group for the year ended 31 December 2018 was approximately RMB165.6 million, representing a decline in 56.7% or approximately RMB216.5 million as compared to approximately RMB382.1 million in 2017. Overall gross profit margin decreased from approximately 37.5% in 2017 to approximately 24.0% in 2018. The decrease is primarily due to the sharp plunge in gross margin from our mobile gaming segment which contributed to more than half of our overall gross profit.

Gross profit for the flexo-printed cartons segment for the year ended 31 December 2018 was approximately RMB25.9 million, representing a decrease in 48.2% as compared to approximately RMB50.0 million in 2017. Gross profit margin decreased from 15.7% in 2017 to 13.2% in 2018.

Gross profit for the offset-printed cartons segment for the year ended 31 December 2018 was approximately RMB50.3 million, representing a decrease in 45.9% as compared to approximately RMB93.0 million in 2017. The gross profit margin of offset-printed cartons decreased to 19.4% in 2018 from 25.8% in 2017.

The gross profit from our mobile gaming segment for the year ended 31 December 2018 was approximately RMB89.5 million, representing a decline in approximately 62.6% as compared to approximately RMB239.0 million in 2017. The gross profit margin decreased to approximately 38.0% for the year ended 31 December 2018 from approximately 70.0% in 2017. The deterioration in gross profit was mainly attributable to the increase in game development cost.

OTHER REVENUE AND INCOME

Other revenue and income of the Group decreased by 58.3% or approximately RMB7 million from approximately RMB12.0 million in 2017 to approximately RMB5.0 million in 2018. The decrease was mainly attributable to the reduction in government subsidy granted for the development of software and information service during the year.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group decreased by 1.8% or approximately RMB3.1 million, from approximately RMB175.7 million in 2017 to approximately RMB172.6 million in 2018. The decrease was mainly due to the reduction in the marketing activities in promoting our mobile games.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased by 67.7% or approximately RMB35.0 million from approximately RMB51.7 million in 2017 to approximately RMB86.7 million in 2018. The increase was primarily due to the increase in research and development cost in developing mobile games, credit loss expense, loss on disposal of equipment and increase in staff cost.

CHANGE IN FAIR VALUE OF CONTINGENT CONSIDERATION PAYABLE

The change in fair value of contingent consideration payable for the year ended 31 December 2017 was arisen from settlement of contingent consideration payable by way of issue of the Promissory Note 4 and issue of 128,571,429 ordinary shares at issue price of HK1.99 each.

IMPAIRMENT OF GOODWILL

The Group has recognised impairment loss on goodwill of Cable King Group of approximately RMB200.6 million for the year ended 31 December 2018. During the year ended 31 December 2018, the Cable King Group's net profit was not in line the pervious expectation mainly due to (1) underperformance of existing games; (2) delay in launching of new games due to the sudden halt in the licensing of new games by the industry regulator; (3) increase in game development cost other than expectation.

Value-in-use Approach

The value-in-use ("VIU") method of discounted cash flow was adopted for the calculation of the recoverable amount of the Cable King Group cash-generating unit ("CGU"). In accordance with Hong Kong Accounting Standard 36 Impairment of Assets, a CGU to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the CGU may be impaired, by comparing its carrying amount, including the goodwill, with its recoverable amount (i.e. the higher of the VIU or the fair value less costs of disposal). The basis of fair value less costs of disposal was not adopted because there is no reasonable basis for making a reliable estimate of the price at which an orderly transaction to sell the CGU would take place between market participants at the measurement date under the then prevailing market condition. In addition, costs of disposal of the CGU may vary on a case-by-case basis and such information could not be easily measured. As such, VIU was used as the recoverable amount of the CGU. Such calculation is based on (i) profit forecast prepared by Cable King Group's management covering a five year period and (ii) a discount rate of 23.94% per annum which reflects current market assessment of the time value of money and the credit risk specific to the CGU. Profit forecast was prepared based on budgeted income and budgeted cost of sales during the budgeted period. Budgeted gross margins were determined based on management's expectation for future market development and past experience, and the management believes the forecast reflects their best knowledge of the Cable King Group. The VIU method of discounted cash flow has been consistently applied in the valuation on the CGU since 2016. The Group engaged the external professional independent valuers to perform the valuations of the CGU of the Cable King Group at 31 December 2018 and 2017.

Details of the Value of the Inputs and Key Assumptions

The key assumptions used in the VIU calculations are those regarding the discount rates, budgeted income during the period and growth rates.

The Weighted Average Cost of Capital ("WACC") was adopted as the discount rate for the valuation. The WACC comprises two components: the cost of equity and the cost of debt. The cost of equity of 24.95% was estimated by the Capital Asset Pricing Model, with consideration of company-specific risk premium of 8.00% which represented the premium for additional risks associated with the operation of CGU and a size premium of 5.37% which considered the small size of CGU. The post-tax cost of debt of 3.56% was determined by the expected borrowing rate of CGU in the PRC, with a tax rate of 25%. The capital structure of the market comparable companies was also taken into account in determining the WACC. The weight of debt of 4.75% was determined by the average of the weights of debt of the comparable companies assuming that the weight of debt of CGU moves toward that of the average of the comparable companies over time. Accordingly, the weight of equity of 95.25% was adopted. As a result, the discount rate of CGU was calculated as 23.94%, which was similar to 24.24% which was adopted in 2018.

The growth rate used to extrapolate the cash flows of the relevant games beyond the five year periods was 3% which was the same as that previously adopted. This growth rate is based on the relevant industry growth forecast and does not exceed the long term average growth rate for the relevant industry. There were no significant changes in the value of the inputs and assumptions adopted in the preparation of the projected cash flows in 2019 as compared with those adopted in 2018, except for the estimate of budgeted income and the adoption of cost control policy in promoting activities. Due to the uncertainty in the pace of new games being approved by the industry regulator, the management of the Group revised the expected launch time and projected income of the new games in a more prudent manner which resulted in the decrease in the recoverable amount of the Cable King Group CGU. As a result, the total projected revenue in 2019 of RMB239.4 million was lower than the projected revenue of RMB582.4 million in 2018.

FINANCE COSTS

Finance costs of the Group remained stable at approximately RMB32.8 million in 2018 as compared to approximately RMB33.0 million in 2017.

INCOME TAX EXPENSES

Income tax expenses of the Group decreased by 55.8% or approximately RMB12.1 million from approximately RMB21.7 million in 2017 to approximately RMB9.6 million in 2018. The decrease was consistent with the decrease in taxable profit. Both of our packaging and mobile gaming segments were qualified as High and New Technology Enterprises and entitled to a preferential income tax rate of 15%.

LOSS FOR THE YEAR

As a combined result of the factors discussed above, the Group's net loss for 2018 was approximately RMB345.9 million as compared to a net loss of approximately RMB50.7 million for the previous year.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation with internal resources, borrowings, promissory notes and convertible bonds. As at 31 December 2018, cash and bank balances amounted to approximately RMB268.3 million (2017: RMB463.9 million), primarily denominated in Renminbi and Hong Kong Dollars. The Group's total borrowings amounted to approximately RMB359.4 million (2017: RMB364.1 million). As at 31 December 2018, 14.2% (2017: 14.6%) of the total borrowings were denominated in Renminbi and 85.8% (2017:85.4%) of the total borrowings were denominated in Hong Kong Dollars. The Group's gearing ratio is calculated as total borrowings, which is the summation of bank borrowings, promissory note and convertible bonds, divided by total equity. The gearing ratio of the Group as at 31 December 2018 and 2017 were 75.0% and 45.8% respectively.

On 14 May 2018, HK$8,333,333 of Bonds 1 was converted to 9,803,922 shares at a conversion price of HK$0.85 per share.

On 20 May 2018, the Promissory Note and Convertible Bonds ("Note and Bonds 2") issued on 20 May 2016 with principal amount of HK$120,000,000 and remaining amount of HK$6,666,667, respectively were extended for one year. The Note and Bonds 2 may be redeemed anytime at the option of the Group. The Note and Bonds 2 bear a fixed coupon interest rate at 7.5% per annum payable semi-annually.

On 19 June 2018, HK$40,000,000 of the Promissory Note ("Note 1") issued on 19 June 2015 was repaid and the Company entered into supplementary deeds with the noteholder and the noteholder agreed to extend the maturity date of the remaining HK$40,000,000 to 20 May 2019 and the fixed coupon interest rate amended to 8.5% per annum payable semi-annually.

INVENTORIES

As at 31 December 2018, inventories amounted to approximately RMB42.3 million (2017: RMB30.0 million). The number of inventory turnover days was approximately 35 days (2017: 20 days).

TRADE RECEIVABLES

As at 31 December 2018, trade receivables amounted to approximately RMB61.6 million (2017: RMB140.5 million). The Group granted customers from our packaging segment a credit period of 30 to 60 days following the day of delivery. The number of turnover days for trade receivables was approximately 53 days (2017: 53 days).

TRADE PAYABLES

As at 31 December 2018, trade payables amounted to approximately RMB31.5 million (2017: RMB77.4 million). The Group managed to obtain a credit period of an average of approximately 60 days from the majority of its suppliers. The turnover day for trade payables was approximately 38 days (2017:45 days)

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC while most of its operating transactions are settled in RMB. Most of its assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year ended 31 December 2018.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group's capital commitments were approximately RMB60.0 million (2017: RMB60.0 million). The capital commitments were mainly related to capital contribution payable to a subsidiary.

CONTINGENT CONSIDERATION AND LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 31 December 2018, the Group pledged certain assets with a carrying value of approximately RMB87.3 million (2017: RMB98.3 million) as collateral for the Group's bills payable and bank borrowings.

INFORMATION ON EMPLOYEES

As at 31 December 2018, the Group had a total of 729 full time employees, including the Executive Directors (2017: 726). Total staff costs (including Directors' emoluments) were approximately RMB73.4 million, as compared to approximately RMB67.8 million for the year ended 31 December 2017.

The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. The package includes salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

OUTLOOK

Mobile gaming segment

Looking forward, the Group maintains cautiously optimistic view towards the outlook of China mobile gaming market for 2019. New game licensing in China resumed at the end of 2018, although China has issued a restricted policy in the gaming sector. In this more favorable environment, we will continue to enhance our product technologies, deepen our market research, and enrich the graphics, design, and content of our self-developed games. The Group will also explore the opportunity of providing new game-playing experiences to overseas markets, especially in Southeast Asia.

Packaging segment

The US-China Trade War has created an extremely challenging business environment for the Group's packaging businesses. Despite this, the Group holds an optimistic view on the high-end packaging market, which has higher technical standards. We believe demand will remain strong in this segment. However, to continue to satisfy the ever-changing market requirements and needs of customers, the Group will also invest in upgrading production facilities to enhance product quality and production efficiency.

Looking ahead, the Group will continue to explore new market opportunities and while strengthening our existing business.

Environmental, Social and Governance Report

I. ABOUT THIS REPORT

Mobile Internet (China) Holdings Limited (the "Company") is an investment holding company while the principal operating subsidiaries are engaged in manufacturing and sales of packaging materials and development, distribution and operation of mobile gaming products. The Company and its subsidiaries (collectively, the "Group") stringently adhere to their environmental and social responsibilities.

Not only has the Group made tremendous progress in its business expansion and economic development, the Group also pays great attention to environmental protection and the fulfilment of their social responsibilities. With a strong ambition and commitment to forge an eco-friendly, resilient and reliable enterprise that pioneers in sustainable development compared to its peers in the industry, the Group never stops its footstep in exploring new ways to change its business model and operating practice in order to make contributions to addressing the pressing global climate change-related challenge.

The Group is pleased to present Environmental, Social and Governance ("ESG") Report for FY2018 to demonstrate the Group's approach and performance in terms of ESG management and corporate sustainable development for the financial year ended on 31 December 2018. This ESG report is prepared in full compliance with the ESG Reporting Guide as set out in Appendix 27 of the Listing Rules on The Stock Exchange of Hong Kong Limited. To deliver a formalised and internationally compatible ESG report, the Group referenced recommendations of the Task Force on Climate-related Financial Disclosures to improve the integrity, international compatibility and industrial comparability of the report.

II. BOARD INCLUSIVENESS

The Group has developed its internal strategies and policies with aims to create sustainable values to its stakeholders, thereby to large extent minimising the Group's undue impact on the environment. In order to carry out the Group's sustainability strategy from top to bottom, the Board of Directors ("Board") of the Group has ultimate responsibilities for ensuring the effectiveness of the Group's ESG policies.

The Group has established dedicated teams to manage ESG issues within each business division of the Group and kept monitoring and overseeing the progress against corporate goals and targets for addressing climate change. Dedicated teams with designated staff for management of ESG issues has been assigned to enforce and supervise the implementation of the relevant ESG policies cascading through the Group.

With the forward-looking guidance and well-designed plans of action to address underlying ESG matters, the directors and responsible teams keep reviewing and adjusting the Group's sustainability policies to satisfy the ever-changing needs of its stakeholders on a regular basis. For instance, through the assignment of the responsibility of progress tracking to different management-level positions, the Group is committed to achieving an excellent performance in ESG management while also remaining competitive compared with its peers. Details of the Group's management approaches in both the environmental and social aspects are elaborated in different sections of this ESG report.

Our Governance Structure of Sustainability

Top-down ; decision making and leadership

Board

- Develops and initiates sustainability strategies and guidelines;
- Identifies the potential risks in roadmap of business development.

Management

- Steers, supervises and monitors the implementation of sustainability practices;
- Assesses and manages the risks during operations.

Business units

- Executes the policies at different stages of operations;
- Eliminates, abates and control the risks.

Bottom-up ; experiences and feedback

III. REPORTING PERIOD AND SCOPE OF THE REPORT

This ESG Report covers the environmental and social performance within the operational boundaries of the Group that includes the business of manufacturing and sales of packaging materials and development, distribution and operation of mobile gaming products. For corporate governance section, please refer to the Group's 2018 Annual Report on pages 7 to 15 therein. The reporting period of this ESG report is for the financial year 2018 ("FY2018"), from 1 January 2018 to 31 December 2018. This report is prepared in both English and Chinese. If there is any conflict or inconsistency, the English version shall prevail.

IV. STAKEHOLDER ENGAGEMENT

An effective communication with both internal and external stakeholders is regarded essential to the Group in many areas. It can not only deliver the Group's commitment to long-term value creation to stakeholders who care about the level of sustainable development of the Group, but also helps the Group gain a better understanding of those topics material and relevant to different groups of stakeholders.

With the goal to strengthen corporate sustainability approach and performance while enhancing stakeholders' awareness of ESG and sustainability issues, the Group has put tremendous efforts into its internal and external stakeholder inclusiveness. The Group highly values the feedback from its stakeholders and takes initiative to build a trustful and supporting relationship with them through their preferred communication channels, which are listed in the table below.

Table 1 Stakeholders Expectations and Communication Channels

Stakeholders	Expectations and concerns	Communication channels
Government and regulatory authorities	– Compliance with laws and regulations – Business sustainability – Proper tax payment	– Supervision on complying with local laws and regulations – Routine reports and tax paid
Shareholders	– Return on investments – Corporate governance – Business compliance	– Regular reports and announcements – Regular general meetings – Official company website
Employees	– Employees' compensation and benefits – Career development – Healthy and safe working environment	– Performance reviews – Regular meetings and trainings – Emails, notice boards, hotline, caring activities with management
Customers	– High quality products and services – Protect customers' rights	– Face-to-face meetings and on-site visits – Customer service hotline and email
Suppliers	– Fair and open procurement – Win-win cooperation	– Suppliers' satisfactory assessment – Face-to-face meetings and on-site visits
General public	– Involvement in communities – Business compliance – Environmental protection awareness	– Media conferences and responses to enquiries – Public welfare activities – Regular reports and announcements – Face-to-face interview

Materiality Assessment

Since ESG risks and opportunities for companies vary across industries and depend on specific business patterns of companies, the Group undertakes annual review in identifying and understanding its stakeholders' main concerns and material interests for the ESG report. In FY2018, the Group engaged its stakeholders to conduct a materiality assessment survey initiated by a third-party agency in order to guarantee the accuracy and objectivity of evaluation. Specifically, internal and external stakeholders including customers, suppliers, business partners, board members and employees from various business units of the Group were chosen and assessed based on their respective influence and dependence on the Group. Stakeholders were invited to express their concerns on a list of sustainability issues via an online survey to pinpoint the ESG issues that were identified as material to the Group's business development and strategies. Through a science-based materiality assessment to prioritise the topics from the entire inventory of ESG issues, the Group eventually formulated a materiality assessment matrix below, which could genuinely reflect the real concern of its stakeholders on ESG matters and facilitate the Group to develop actions plans for effective ESG management.

According to the outcome of the materiality analysis matrix, the Group identified seven ESG issues that are of great significance to both the Group and its stakeholders from the inventory of 29 sustainability topics, namely identified water use, customer satisfaction, product quality assurance and recall percentage, and protection of customer information and privacy as issues of the highest importance to both the Group and its stakeholders. This review and assessment help the Group to objectively prioritise its sustainability issues, precisely identify the material and relevant aspects, and make for the purposeful documentation and disclosure of its ESG performance so as to align them with stakeholders' expectations.

V. ENVIRONMENTAL SUSTAINABILITY

The Group is committed to the long-term sustainability of the environment and community in which it operates, stringently controls its emissions and consumption of resources, and complies with all relevant environmental laws and regulations in Hong Kong and the People's Republic of China ("PRC") in the daily operation.

This section primarily discloses the Group's policies, practices, and quantitative data on emissions, use of resources, the environment and natural resources in FY2018.

A.1. Emissions

The Group adamantly complies with all relevant environmental laws in the operating regions, including but not limited to:

- Waste Disposal Ordinance (Chapter 354 of the Hong Kong Law);
- Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》);
- Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》);
- Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》); and
- Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》).

In FY2018, the Group found no disregard of any influential laws relevant to waste gas or greenhouse gas emissions, water or land discharging and hazardous or non-hazardous wastes.

The main emissions from the Group mainly comes from the manufacturing of packaging materials. The emissions from the mobile gaming business is relatively minimal. The emissions mainly comprise wastewater, solid waste, air emissions and noise. The Group has implemented internal policies to control the emissions in the daily operations.

In FY2018, given the nature of the Group's business, the greenhouse gas ("GHG") emissions from the Group for Scope 1 (Direct Emissions), Scope 2 (Energy Indirect Emission), and Scope 3 (Other Indirect Emissions) were 724.3 tonnes carbon dioxide equivalent ("CO_2e"), 6,718.5 tonnes CO_2e, and 2.6 tonnes CO_2e respectively. The Group's total GHG emissions amounted to 7,445.4 tonnes CO_2e, and the GHG intensity for the Group was 10.2 tonnes CO_2e/employee. Other than GHG emissions, the Group also generated 65,000m^3 of non-hazardous wastewater (with an intensity of 89.4 m^3/employee), while the Group had no record of the amount of non-hazardous wastewater during the year under review. The Group's total emissions are summarised in Table 2.

Table 2 The Group's Total Emissions by Category in FY2018

Emissions		Unit	Amount	Intensity* (Unit/employee)
Air emissions	SO_2	kg	4.2	–
	NO_x	kg	44.2	–
GHG emissions	Scope 1 (Direct Emission)	tonnes CO_2e	724.3	1.0
	Scope 2 (Energy Indirect Emission)	tonnes CO_2e	6,718.5	9.2
	Scope 3** (Other Indirect Emission)	tonnes CO_2e	2.6	–
	Total (Scopes 1, 2 and 3)	tonnes CO_2e	7,445.4	10.2
Non-hazardous waste	Wastewater	M^3	65,000	89.4

* Intensity was calculated by dividing the amount by the Group's FY2018 average number of employees

** The Group's Scope 3 (Other Indirect Emissions) includes only paper waste disposed at landfills

Air and Greenhouse Gas ("GHG") Emissions

The air emissions and GHG emissions of the Group are mainly generated from the production process and the car use in the daily operations.

The GHG emissions of the Group consist of direct emission (Scope 1) from incineration for crematory, the use of vehicles, indirect emission (Scope 2) from the consumption of electricity, and other indirect emission (Scope 3) from the waste paper processing. The direct emission and indirect emission are the main source of GHGs emissions while other indirect emission is insignificant.

The Group is aware of the role technological and economic potential plays in limiting the global temperature rise to 2°C above pre-industrial levels. Therefore, the Group has aligned its operating practice with internationally acceptable and recognised standards and recommendations in terms of GHGs reduction by the adoption of energy-efficient technologies, electricity-saving measures, and environmental buses.

The Group owns a patent called An Improved Device for Soft Water Discharge (軟水排放改良裝置), which largely improves the quality of the exhaust gases and reduces the air emissions. Besides, the Group uses steam instead of coal for manufacturing, which can largely improve the quality of the exhaust gases and reduce air emissions. Detailed measures taken by the Group to reduce its GHG emissions through reducing electricity consumption will be described further in A.2. Use of Resources of this report.

Wastewater and Solid Waste

The wastewater generated from the Group includes industrial wastewater and domestic wastewater. Industrial wastewater is discharged to the municipal sewage treatment plant after filtration process inside the manufacturing factories, while domestic wastewater is discharged directly. No hazardous wastewater was generated during FY2018.

Solid wastes generated by the Group include the domestic solid waste generated in offices and dormitories, and waste paper generated in the factories. No hazardous solid waste is generated. Solid waste generated from the mobile gaming business is managed by the property management company of the office building. In the packaging business, domestic solid waste is collected by the environmental sanitation company regularly, while waste paper is collected for recycling purpose. To increase the recycling efficiency, the Group invented and got a patent for a site recycling equipment of waste paper.

Noise

In compliance with the Law of the People's Republic of China on the Prevention and Control of Ambient Noise Pollution (《中華人民共和國環境噪音污染防治法》), the Group has conducted noise detection around the operation site to meet the requirement of the PRC Emission Standard for Industrial Enterprise Noise at Boundary (《工廠企業廠界環境噪音排放標準》) (GB 12348-2008).

A.2. Use of Resources

The use of natural resources has always been the key issue for the Group's environmental concern. The Group complies with the natural resource usage related laws, including but not limited to Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and Provisions on the Management of Water Conservation in Cities (《城市節約用水管理規定》).

To effectively manage its resources consumption, the Group keeps improving its tracking of ESG related KPIs (Key Performance Indicators) and launches internal monitoring programme on the procurement and use of resources. In FY2018, the major resources consumed by the Group were electricity, water and gasoline from packaging material production.

Table 3 The Group's Total Use of Resources by Category in FY2018

Use of Resources		Unit	Amount	Intensity* (Unit/ employee)
Electricity		kWh	12,743,236.0	17,516.5
Diesel		L	220,000.0	302.4
Gasoline		L	48,000.0	66.0
Water		M^3	70,853.0	97.4
Stream		M^3	8,791.0	12.1
Packaging materials	By plastic	tonnes	11.0	–
Paper		kg	549.0	0.8

* Intensity was calculated by dividing the amount by the Group's FY2018 average number of employees

Water

The total water consumption of the Group was 70,853.0m^3 in FY2018, which mainly came from the packaging material production. In FY2018, the Group did not face any problems in sourcing water. To improve the utilization efficiency of water resources, the Group and all its employees have laid emphasis on water conservation and are dedicated to saving every drop of precious water resource by various efficacious ways. Specifically, to improve the utilisation efficiency of water resources, the Group has adopted the following practices:

- Adopt low-flow faucets or showers in the office and staff living areas;
- Purchase water-efficient equipment to replace old heavy water consuming equipment;
- Install rain-harvesting system to collect water on the site for landscape irrigation and using an induction irrigation system to control exterior water use;
- Collect use water for cooling, cleaning and washing;
- Adopt advanced water-saving technology to increase water use and recycle efficiency;
- Carry out regular leakage tests on water tap, washers and other defects in the water supply system;
- Fix dripping taps immediately; and
- Turn off the water supply system at night and on holidays.

Electricity

The Group's use of electricity comes from the lighting, air-conditioners, computers and other electricity consuming equipment in the office, and the regular operations in the manufacturing factories. In FY2018, the total electricity consumption of the Group was 12,743,236 kWh (with an intensity of 17,516.5 kWh/employee).

To reduce the electricity consumption, the Group encourages the innovation and adoption of more environmentally friendly technologies in its financial printing services. Meanwhile, to make sure that all subsidiaries and departments of the Group adhere to the electricity-saving principle, a detailed internal policy and guidelines to instruct all employees to change towards sustainability have been formulated. All subsidiaries of the Group must stringently comply with the Group's energy saving policy in FY2018.

During the year under review, many eco-friendly measures were conducted by the Group to manage its electricity consumption. To ensure the effective use of electricity, other electricity-saving measures implemented by the Group are detailed below:

- Replace energy-consuming equipment with energy-saving equipment;
- Switch off the electronic equipment when not in use;
- Maintain and fix the production equipment immediately and keeps the operations in line with internal regulations;
- Keep the office equipment clean (such as refrigerator, air-conditioner and paper shredder) and ensure that they run efficiently;
- Modify the temperature of air conditioner according to the season;
- Encourage employees to use the stairs instead of lift;
- Place "Saving Electricity, turn off the Light when Leaving" posters in prominent places to remind employees; and
- Implement timer in public areas to turn off electronic equipment at specific time.

Energy

The Group consumes gasoline and diesel for vehicles, and steam for production. To reduce the amount of energy used in the operations, the Group has encouraged the efficient utilization of transportations including using public transportation and actively adopting advanced manufacturing technologies using steam to replace coal.

A.3. The Environment and Natural Resources

The Group is committed to developing its business in an environmentally-friendly way. We encourage employees to take public transportation for commuting. In order to reduce its impact on the environment, the Group adopted steam as the substitute for coal in the packaging material production process.

One of the main natural resources consumed by the Group is paper from factories in the packaging business, the amount of which is based on the orders from clients. In FY2018, the total amount of paper consumption in the Group was 549 kg. To minimise the impact of paper usage on the environment, the Group has put great efforts into the implementation of following policies:

- Choose suppliers with more environmentally-friendly paper source, so as to indirectly reduce the amount of tree losses while consuming the same amount of paper;
- Promote paperless office, and disseminate information by electronic means (i.e. via email or e-bulletin boards) as much as possible;
- Set duplex printing as the default mode for most network printers when printouts are needed;
- Instil the idea of "Think before print" by using posters and stickers in offices to remind the staff of avoiding unnecessary printings;
- Reconsider boxes and trays as containers beside photocopier to collect single-sided paper for reuse and recycling;
- Use the back of old single-sided documents for printing or as draft paper; and
- Recycle used stationery whenever possible.

Sustainable Development Goals (SDGs) of United Nations defined the vision and priorities of global sustainability in 2030 and call on all enterprises to maximise their innovation capabilities for addressing the challenges of sustainability and to some degrees accomplishing the 17 sustainability goals together. With an ambitious target to integrate the global sustainable development goals into its business strategies, the Group references the SDG Compass and commits to achieve the understanding of sustainability goals, setting of priorities and long-term goals, integration and implementation of corporate sustainability efforts, and effective reporting and communication in the near future.

As a company with a long-term vision to forge a sustainable and eco-friendly business model in the printing industry, the Group is currently working on the establishment of sustainable development framework by environmental awareness building and SDGs evaluation under the context of industrial trend and business nature.

VI. SOCIAL SUSTAINABILITY

EMPLOYMENT AND LABOUR PRACTICES

B.1. Employment

The Group views talents as its most valuable assets and the key driving factor in ensuring the success and sustainable development of the Group. Upholding the concept of "paying respect to the dedicated, utilising the competent, fostering the aspiring and incentivising the innovative", the Group strives to providing a safe and sound working environment for employees and cultivating talents experienced in technology and management.

Law compliance

The Group's human resources policies fully align with the applicable employment laws and regulations in Hong Kong and the PRC, such as:

- Employment Ordinance (Chapter 57 of the Laws of Hong Kong);
- Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong);
- Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong);
- Labour Law of the People's Republic of China (《中華人民共和國勞動法》);
- Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》)；
- Regulation on Labour Security Supervision (《勞動保障監察》)；
- Company Law of the People's Republic of China (《中華人民共和國公司法》); and
- Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》).

To make sure that the relevant internal policies are fully in line with the latest laws and regulations, it is the Group's human resources department that reviews and updates corporate documents in talent management on a regular basis.

Recruitment and promotion

Talent acquisition is vital to the sustainable development of the Group's business. Relevant department should apply for the recruitment application according to the actual business needs, fill out the "Human Resources Needs Application Form", and specify the reasons for the demand, the job content of the required positions, and the qualifications of the required personnel. According to the approved application, the administrative department collects resumes through internal recruitment, external networks, universities, and labour markets, and screens according to the demand conditions on the application. The person who has passed the preliminary interview conducted by the director of the administrative department will be referred to the relevant department manager for re-examination, and an opinion will be signed on the "Applicable Resume" to decide employment.

To attract high-calibre candidates, the Group offers fair, competitive remuneration and benefits based on individuals' performance, personal attributes, job experiences and career aspiration. In addition, the Group has proposed a variety of initiatives to facilitate the recruitment of staff, such as recruitment fairs, job advertisements in newspapers, magazines and internet websites. The Group believes that its continuous efforts will tremendously help attract the most suitable and outstanding personnel to join the Group.

The promotions of employees are seriously considered by the Group and based on personal capability, performance and contributions to the Group.

Compensation and dismissal

To motivate, reward, and recognize our existing employees who have made giant contributions to the Group, compensation reviews and salary adjustment are regularly conducted with reference to the overall market conditions, inflation rate, profitability of the Group and employee's past performance. This ensures that employees are recognised by the Group appropriately with respect to their efforts and contributions. The Group also builds bonus system and sets share point scheme as a long-term incentive plan for key management staff. By improving the remuneration system and career paths, the Group expects to establish a comprehensive incentive system based on physical, mental, emotional and growth motivations to carry forward the harmonious and stable employment relationship.

Meanwhile, any appointment, promotion or termination of employment contract would be based on reasonable and lawful grounds along with internal policies, such as staff handbooks. The Group strictly prohibits any kind of unfair or unreasonable dismissals.

Working hours and rest period

The Group arranges reasonable working hours and rest periods for its employees according to the Rules of the State Council on Working Hours of Workers and Staff Members (《國務院關於職工工作時間的規定》). The rules established by the Group strictly aligns with working hours and minimum wage related laws and regulations in the operating area. In addition to basic paid annual leave and statutory holidays stipulated by the local governments, employees are entitled to additional leave benefits such as marriage leave, paternity leave and compassionate leave.

Equal-opportunity and anti-discrimination

As an equal opportunity employer, the Group is committed to creating a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in all human resources and employment decisions. For instance, training and promotion opportunities, dismissals and retirement policies are determined irrespective of employees' gender, race, age, disability, family status, marital status, sexual orientation, social or ethnic origin, religion beliefs, nationality or any other non-job-related factors in all business units. The Group's equal opportunities policy enforces zero tolerance to any workplace discrimination, harassment or victimization in accordance with the relevant government legislation, ordinances and regulations, such as the Disability Discrimination Ordinance (Chapter 487 of the Laws of Hong Kong) and the Sex Discrimination Ordinance (Chapter 480 of the Laws of Hong Kong). Disciplinary actions would be taken against the relevant employee if there is any non-compliance or breach of legislation related to the equal opportunities policies.

Other benefits and welfare

The Group provides additional benefits and welfare including endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing provident fund.

In terms of internal coaching and communication, the effective two-way communication between the general staff and managerial staff is highly encouraged within the Group. The employees maintain timely and smooth communication with each other and with the management through a variety of ways including bulletin board posting and manager meetings. Maintaining a barrier-free employer-employee relationship helps create a productive and pleasant working environment.

During FY2018, the Group was in full compliance with relevant laws and regulations in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, welfare and other benefits that have a significant impact on the Group.

B.2. Health and Safety

To provide and maintain good working conditions and a safe and healthy working environment for its employees, the Group has complied with various laws and regulations stipulated by the HKSAR Government and the State Council of the PRC. The specific laws and regulations include Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong), Production Safety Laws of the People's Republic of China (《中華人民共和國安全生產法》), Regulation on Work-Related Injury Insurance (《工傷保險條例》) and Occupational Disease Prevention Law in the People's Republic of China (《中華人民共和國職業病防治法》). The Group has strictly implemented laws and regulations relating to health and safety into the daily operations.

The Group strictly adheres to the principle of no smoking, no drinking liquor and no drug taking, and is committed to providing a clean, smoke-free and safe working environment. To do so, the Group has built fully equipped office and set safety warning signs and safety notices in dangerous areas. Also, to create a non-accident working environment, the Group holds fire drill at least once a year.

To ensure employee's health, the Group has provided free physical examination annually. The Group has also encouraged its employees to attend the internal training and reporting seminars regarding occupational health and safety, thereby reducing accident risks and enhancing employees' health and safety awareness. Safety manual is also established to guide and restrain employees' behaviour in operating regions to protect employees.

In FY2018, no work-related fatalities and no lost days due to work injury occurred in the Group's related activities. During the year under review, the Group was not in violation of any of the relevant laws and regulations in relation to providing a safe working environment and protecting the employees from occupational hazards that have a significant impact on the Group,

B.3. Development and Training

Training presents an opportunity to expand the knowledge base of all employees, which the Group finds quite useful for addressing employees' weakness, improving employees' performance, keeping the consistency between employees and corporate vision, and meeting employees' training expectations. Thus, the Group actively provide training opportunities for employees. The Group believes that professional trainings are a fundamental step to foster the understanding of its business philosophy among employees and the cornerstone to ensure the service quality.

The Group has emphasised staff's personal development. In FY2018, the Group held a range of internal occupational training and development programmes to improve work related skills and knowledge. For newly recruited staff, the Group provides training according to their roles, positions, corporate policies and cultures.

The Group also encourages employees to attend external trainings for enhancing their competitiveness and expanding their capability through continuous learning. The Group may arrange external training organisations and trainers to provide job-related trainings to its employees. Employees who have received work-related certificates can apply for reimbursement after director's approval.

The Group aims to foster a learning culture that could strengthen its employees' professional knowledge, so as to benefit the Group as employees are expected to achieve better working performance after receiving appropriate training. Employees' performance in the trainings is also considered in the employees' performance evaluations.

B.4. Labour Standards

The Group strictly abides by the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), Labour Law of the People's Republic of China (《中華人民共和國勞動法》), Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and other related labour laws and regulations in Hong Kong and the PRC to prohibit any child or forced labour employment.

All employees must conclude a labour contract with the Company to determine the labour relationship. To combat illegal employment on child labour, underage workers and forced labour, and to ensure that applicants are lawfully employable, all employees are required by the Group's human resources staff to provide valid identification document prior to the confirmation of employment. The human resources department is responsible for monitoring and ensuring compliance with the latest and relevant laws and regulations that prohibit child labour and forced labour. The Group has regular review on the human resources policies and the human resources department established reporting mechanism to monitor and ensure the compliance of all relevant laws and regulations.

During FY2018, the Group was not in violation of any relevant laws and regulations, in relation to the prevention of child and forced labour that have a significant impact on the Group.

OPERATING PRACTICES

B.5. Supply Chain Management

Packaging business

As a socially responsible enterprise, it is critical and vital for the Group to maintain and manage a sustainable and reliable supply chain that has minimal negative repercussions on the environment and society. The Group values the management of the supply chain and has strictly complied with internal regulations of choosing suppliers according to the Supplier Management Operations (《供應商管理作業》). The main suppliers of the Group are Jiangxi Marine Papermaking Limited (江西海洋紙業有限公司); Nanchang Shengyu Trading Co., Ltd (南昌生玖貿易有限公司); Anhui Shanying Paper Sales Co., Ltd. (安徽山鷹紙業銷售有限公司) providing base paper and corrugated cardboard.

The staff from purchasing department collect supplier information according to the demand. Through online searching, industry certification investigation and site survey, the Group can primarily acknowledge the prestige and performance of the supplier. The Group also considers the legality of suppliers and their relevant business performance or certifications. Potential suppliers should provide product sample. If the sample lives up to the Group's expectations and passes relevant evaluations, the supplier will be marked as qualified supplier, who normally needs to obtain the certification of ISO/TS16949 or ISO9001. For specific suppliers, however, ISO14001 should also be provided as an important criterion. Besides, those suppliers should be qualified in the aspects listed below:

- Registered capital;
- Technical capability on material R&D, production and processing;
- Technical capability on drawing a design, processing and production according to the material the Group provided; and
- Delivery on time: sample should be delivered in 4 working days after receiving the material and volume production should be delivered 3 days of production.

At least two suppliers should be evaluated by relevant department and the final decision should be made after the comparison of price. The Group also has alternative suppliers to lower the risk in the supply chain. The Group conducts annual assessment of the qualified suppliers based on quality, price, delivery time and the degree of cooperation. Those who are not up to standard will be removed from the list of qualified suppliers. The suppliers are managed and divided according to the contract term and production capability.

When receiving the raw materials, the quality management department will conduct spot inspection and require suppliers to provide quality certification or testing report. The qualified materials will be sent to the Storage and Transportation Department along with the material inspection report, whereas the unqualified ones will be sent there with the Material Inspection Report and the Unqualified Material Notice (《不合格物料通知單》) issued by the quality control department. The storage and transportation department will then inform the purchase department to return those unqualified materials. We keep close relations with our suppliers and ensure all suppliers align with relevant laws and ethics. During the year under review, the Group has no serious delay in the supply chain due to the firm relations with suppliers.

The Group strives to reduce environmental impact of the supply chain. The Group has prioritized environmental-friendly supplier in the selection and makes clear requirement in the purchase contract. In FY2018, the Group has conducted environmental interview with suppliers to identify pollutions and preventing measures.

Mobile gaming business

When choosing suppliers, the Group focuses on registered capital, company size, operation status, financial indicators, business strategy, relevant business qualification (such as "Computer System Integration Qualification" (計算機系統集成資質) and "Certification of High-Tech Enterprises" (高新技術企業認證證書), relevant product qualifications, product introduction and list of clients. For the technical review, the Group concentrates on the IT industry profession degree, IT industry segmentation, core technologies, quality control level, quality assurance system, quality problem processing capacity and additional assessment criteria for specific project. In addition, all cooperative suppliers must adhere to relevant laws and regulations in the industry. All potential suppliers can be collected by open call or recommended by internal department or specific project teams. The potential suppliers should fill in relevant application form and assessed by the Group. Only those pass the assessment and old suppliers without bad records will be included in the qualified suppliers list. The Group will select suppliers from the list upon projects and conduct regular review on the qualification of entrance and technical review.

The main risks of mobile gaming business mainly include information asymmetry, key information leakage, price fluctuation, contract risks and settlement risk. To ensure the product quality, the Group provides quality standard and requirements on environmental protection in the contract. The Group strives to reducing the supply chain impact on the environment by purchasing non-pollution product with low energy consumption and requiring the supply chain to comply with relevant environmental standard.

Besides, the Group strives to lower the impact on the environment on the supply chain and prefers suppliers whose products and production process are eco-friendly. The environmental requirements are listed in the quality standards that the Group provide to the suppliers. In FY2018, the Group conducted a series of interviews with its suppliers on matters such as pollution accident and environmental protection measures, to effectively control, reduce and prevent the possible environmental pollution caused in the supply chain.

The Group attaches great importance to the communication with the suppliers and aims to build an internal trust with each other. To ensure the sufficient and reliable supply, the Group keeps close contact with the suppliers and makes sure that suppliers strictly comply with relevant laws and regulations, thereby promoting a long-term cooperative relationship.

B.6. Product Responsibility

In order to protect the legitimate rights and interests of consumers and strengthen the supervision on the quality of products, the Group has complied with related laws and regulations on products safety and health including:

- Law of the People's Republic of China on Product Quality (《中華人民共和國產品質量法》);
- Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》); and
- Law of the People's Republic of China on the Protection of Production Safety (《中華人民共和國安全生產法》).

During the year under review, the Group was not in violation of any relevant laws and regulations regarding health and safety, advertising, labelling and privacy matters of its products that may have a significant impact on the Group.

Packaging business

To ensure the product quality, the Group has established Product Management Department (品管課) to conduct inspections on finish goods and deliver the Finished Product Inspection Report (成品檢驗報告). The qualified products will be stored by the storage and transportation department, while the unqualified ones will be returned back to the production department.

The Group values customers feedback and has set up specific email and 24-hour hotline to provide customer service. The sales staff will finish the Customer Complaints Processing Form (顧客抱怨投訴處理登記表) according to the fact after receiving customers' complaints. After the manager of sales department signing on the Customer Complaints Processing Form, the form is delivered to product management department, where the complaints are sourced, grouped and analysed. Meanwhile, the Product Management Department is responsible for organising relevant department or workshop to improve and optimise the production and product quality. The Group has also paid return visits regularly and reconfirmed the reply of complaints.

The Group has established internal policies to ensure all the promotion and advertising materials complies with local laws and regulations including the Advertising Law of the People's Republic of China to prohibit any unreal or exaggerated advertisement. Before the release of advertisements, all the materials should be examined by chamber counsel to ensure its legality, fairness and integrity.

The Group has complied with the Law on the Protection of Customers' Rights and Interests (《中華人民共和國消費者權益保護法》) to ensure that customers' rights have been protected. The Group has strictly controlled and managed the contracts with clients according to archive codes. A safe and comprehensive data storage system has been established and is only accessible for specific staff. Employees have been trained to enhance the awareness of information leaking risks and have signed confidential contract to protect clients' privacy.

Due to the business nature, the Group attaches great importance to the intellectual property rights in this segment and complies to the relevant laws and regulations including Patent law of the People's Republic of China (《中華人民共和國專利法》), Copyright Law of the People's Republic of China (《中華人民共和國著作權法》) and the Intellectual Property Law of the People's Republic of China (《中華人民共和國知識產權法》).

Mobile gaming business

The main operation of this business segment is the promotion of the self-developed mobile games. The mobile gaming business focuses on the development and agency operation of web games and mobile games. To lower the market risk and enhance the marketing capability, the Group has authorized Apple Store, Google Play and operators in designed area to provide mobile game download service to customers.

The Group strives to providing customers with good experience. Before publishing a new game, the Group runs stimulation test and perfection. After publishing, the Group provides technical support and continuous improvement according to customer complaints and data analysis. The Group also monitors the server and optimizes the game in both operation level and technique level.

To meet the national requirement for mobile games and platforms, the Group has strictly adopted relating law and regulations including Copyright Law of the People's Republic of China (《中華人民共和國版權法》), People's Republic of China Internet Information Service Management Measures (《中華人民共和國互聯網資訊服務管理辦法》), and Interim Measures for the Administration of Internet Games (《互聯網遊戲管理暫行辦法》).

Adhering to the Interim Measures for online game management (《網絡遊戲管理暫行辦法》) formulated by the Ministry of Culture of the People's Republic of China, the Group has submitted its game record to the Ministry of Culture in one month before all games go up line operation and makes records and e-tags on the approval of the Ministry of Culture. According to relevant laws and regulations, the Group encourages players provide their real identification for better management.

The Group continuously peruses excellent service quality for customers and actively listens to customer feedback for enhancement and hence provides customers with better gaming experience.

The Group has closely monitored the released marketing materials to prevent inappropriate or exaggerated advertisement which comply with Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and related laws and regulations about advertising. If there is any non-compliance with the internal guideline, it would carry out corrective action immediately. In addition, the internal guidelines have been regularly updated with the latest regulations released by the government.

Customers are the treasure of the Group and keeping the customer information in an orderly condition helps the Group to analyse customer data and communicate with them. The Group is committed in abiding by the Personal Data (Privacy) Ordinance and Consumer Council Ordinance in Hong Kong, and Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) to ensure that customers' rights are strictly protected. Customer Service Department is responsible for collecting and completing customers' information. All collected personal data is treated confidentially and is kept securely, accessible by designated personnel only. To enhance the awareness of the risk of information leakage, the Group organises relevant training and requires employees to sign confidential contracts. IT Department also sets accessing limit to confidential files to protect customers' information.

The Group actively apply for intellectual property for the games, mainly including the copyright and trademark right. The Group strives to protecting the intellectual property through various measures, including punishment on plagiarism and confidential contracts. Legal counsels are also employed to provide professional advice on protecting intellectual property.

B.7. Anti-corruption

To maintain a fair, ethical and efficient business and working environment, the Group strictly adheres to the local laws and regulations relating to anti-corruption and bribery, irrespective of the area or country where the Group conducts its business, such as Law of the People's Republic of China on Anti-money Laundering (《中華人民共和國反洗錢法》), Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong), and the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong).

All employees are expected to discharge their duties with integrity and self-disciplined, and they are required to abstain from engaging in any activities related to bribery, extortion, fraud and money laundering which might affect their business decision or independent judgment during business operations which might exploit their positions against the Group's interests.

The Group has no tolerance to any corruption and set whistle-blowing policy to report any corruption. Whistle-blowers can report verbally or in writing to the department or the senior management of the Group for any suspected misconduct with full details and supporting evidence. The management will conduct investigations against any suspicious or illegal behaviour to protect the Group’s interests. The Group advocates a confidentiality mechanism to protect the whistle-blowers against unfair dismissal or victimisation through security regimes. Where criminality is suspected, a report is made to the relevant regulators or law enforcement authorities when the management considers necessary.

During the year under review, the Group was not in violation of any of the relevant laws and regulations in relation to bribery, extortion, fraud and money laundering that have a significant impact on the Group.

COMMUNITY

B.8. Community Investment

The Group believes that community is the foundation on which the Company depends for survival and development. All business activities of the Company will fully consider the interests of the community. The Group places great emphasis on encouraging employees to participate in community projects to gain a better understanding of the genuine needs of the local communities.

The Directors is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of the principal subsidiaries of the Company are set out in Note 1 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2018 is set out in note 6 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business, financial key performance indicators and outlook of the Group for the year ended 31 December 2018 are provided in the Chairman's Statement and Management Discussion and Analysis on page 6 and pages 16 to 23 of this annual report.

ENVIRONMENTAL POLICY

The Group recognizes the importance of environmental protection. We have imposed the following measures to control our pollutant emissions during our production process:

(1) Waste water is processed by our sewage treatment station to reach national safety standards for discharge;

(2) A desulfurization device was in place to monitor the emission of sulfur dioxide so as to ensure that the waste gas emitted from our steam boiler in our boiler room is within the national permissible level; and

(3) Solid waste such as scrap paper and various residues from production will be sold to scrap paper recycling companies for recycling.

For administrative office, we also implement green office practices such as double-sided printing and copying, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

PRINCIPAL RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospect may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. Major risks are summarised below.

Operation risk

Mobile gaming business

(a) the Group may not be able to continuously enhance its existing games and player experience and launch high-quality new games and services, which will materially and adversely affect its ability to continue to retain existing players and attract new players;

(b) the Group utilises major game distribution platforms, online application stores and third-party payment vendors to generate a substantial portion of revenues and if the Group is unable to maintain a good relationship with these distribution and payment channels or if the use of these distribution or payment channels is adversely affected by any factor such as new measures imposed or intervention by any regulators or third parties, the business and results of operations of the Group will be adversely affected;

(c) the Group relies on the contractual arrangements to control and obtain the economic benefits from Behill Science Technology Co., Ltd (冰河(廈門)信息技術有限公司) ("Behill") which may not be as effective in providing operational control as direct ownership;

(d) if the PRC government finds the contractual arrangements established for operating the online game businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the contractual arrangements and the relinquishment of our interest in the variable interest entity, being Behill;

(e) there are uncertainties in the interpretation of PRC laws and regulations relating to the contractual arrangements, in particular, based on the consultation draft of the new PRC Foreign Investment Law published by the Ministry of Commerce on 19 January 2015 and assuming that the draft of the new PRC Foreign Investment Law is enacted as proposed, substantial uncertainties exist in connection with the legality and validity of the contractual arrangements to hold interests in PRC businesses that are subject to foreign ownership restrictions. If an entity established in a foreign jurisdiction is identified as controlled by Chinese investors, the foreign entity could still be recognised as a Chinese investor by the Ministry of Commerce and is therefore not subject to foreign ownership restrictions; and the Company may have to incur significant compliance costs in the future;

(f) challenges presented by the extensive law and regulation of various aspects of online game business in the PRC markets and there is no assurance that such laws and regulations would not apply to the Group or be interpreted in ways that could affect the Group's business.

Competition risk

Packaging business

The packaging industries in which the Group operates in the PRC are highly competitive. The Group's ability to compete is, to a significant extent, dependent on its ability to provide high quality products at a reasonable prices that suit our customer's need. The Group's competitors have varying abilities to withstand changes in market conditions. Some of the competitors have larger market shares, have operated their respective businesses longer than the Group has, have wider geographical coverage for its products, have substantially greater financial and other resources than the Group has and may be better established in the market.

Mobile gaming business

The Group also faces competition in the mobile gaming industry. New technologies such as virtual reality and ever-changing hardware in Mobile may make the competition fiercer than before. The Group will continue to delicate its effort in utilising the existing players' comments for continue development in order to retain their involvement and prolong their play time. We will also continue to research and develop new ideas to attract new players.

Financial Risk

The financial risk management policies and practices of the Group are shown in Note 5 to the consolidated financial statements. There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

RELATIONSHIPS WITH STAKEHOLDERS

Employees

The Company recognises that employees are our valuable assets. Thus our Group provide competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and make necessary adjustment to conform to the market standard.

Suppliers

We have developed long-standing relationships with a number of our suppliers and conducts a fair and strict appraisal on an annual basis.

Customers

We are committed to provide our customers with high quality products and deliver on a timely basis. We also stay connected with our customers to keep abreast of the changing customer preference through regular visits of our sales teams.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 60.

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 156 of this annual report.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in Note 33 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 62 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands and the Company's articles of association (the "Articles of Association"), amounted to approximately RMB132.0 million (as at 31 December 2017: RMB247.6 million).

CONVERTIBLE BONDS

Details of movements in the convertible bonds of the Group during the year are set out in Note 29 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's largest and five largest customers accounted for approximately 2.5% and 7.8% of the total turnover for the year 2018 respectively. Purchases from the Group's largest and five largest suppliers accounted for approximately 9.0% and 35.9% of the total purchases for the year 2018 respectively.

To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year ended 31 December 2018.

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in Note 36 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 16 to the consolidated financial statements.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make charitable contributions (2017: Nil).

DIRECTORS AND DIRECTORS' SERVICE AGREEMENTS

The Directors of the Company who hold office during the year and up to the date of this report are:

Executive directors

Mr. Chen Hong Cai *(Chairman)*
(appointed on 17 January 2018)
Mr. Sun Shao Hua
Ms. Zheng Li Fang
Mr. Chen Wei Wei (resigned on 17 January 2018)

Independent Non-executive directors

Mr. Liu Da Jin
Mr. Wu Ping
Mr. Ma Yiu Ho, Peter

In accordance with the provisions of the Company's Articles of Association, Ms. Zheng Li Fang and Mr. Wu Ping will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting ("AGM").

None of the Directors, including two proposed for re-election at the forthcoming AGM, has a service agreement which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received annual confirmation on independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and all of them are considered to be independent.

DIRECTORS' REMUNERATION

The remuneration of the directors is determined with reference to directors' duties, responsibilities and performance and the results of the Group.

Details of the remuneration of the directors are set out in Note 11 to the consolidated financial statements.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 4 to 5 of this annual report.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2018, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.

SHARE OPTION SCHEME

The Company adopted a share option scheme pursuant to a shareholder's resolution passed on 13 December 2013 (the "Share Option Scheme") as incentives or rewards to eligible participants who means full-time or part-time employees of our Company or members of our Group, including Executive Directors, Non-executive Directors and Independent Non-executive Directors, advisors, consultants of our Group. The Share Option Scheme constitutes a share option scheme governed by Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Share Option Scheme is valid and effective during the period commencing on 13 January 2014 and ending on 12 January 2024, being the date falling 10 years from the date on which the Share Option Scheme becomes unconditional.

At 31 December 2018, the number of shares in respect of which had been granted and remained outstanding under the Share Option Scheme was nil (2017: 40,000,000).

A summary of the Share Option Scheme is as follows:

Basis of determining the exercise/subscription price

The subscription price for the shares subject for any option under the Share Option Scheme shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's share. A total of 80,000,000 share options have been granted under Share Option Scheme since its adoption.

Maximum number of shares

The total number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme must not, in aggregate, exceed 10 percent of the shares in issue as at 12 December 2013 (i.e. 800,000,000 shares) i.e. 80,000,000 shares unless refreshed by the shareholders. However, the Company may not grant any option if the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other share option schemes adopted by the Group from time to time exceeds 30 percent of the shares in issue.

Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the option granted to a participant under the Share Option Scheme in any 12-month period must not exceed one percent of all the shares in issue from time to time unless a further grant to such participant is approved by the shareholders in general meeting.

Time for acceptance of option

A share option will be offered for acceptance for a period of 28 days from the date on which the option is granted.

Amount payable on application or acceptance of option

HK$1.00

Minimum and maximum period for the holding of a share option before it can be exercised

Unless otherwise determined by the Directors and stated in the offer of grant of the share options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of a share option before it can be exercised provided that the period within which the option must be exercised must not be more than 10 years from the date of the grant of the option.

The following table disclosed movements in the Company's share options granted under the Share Option Scheme during the year ended 31 December 2018:

Name and Category of grantees	Date of Grant (dd/mm/yy)	Exercisable period (dd/mm/yy)	Exercise price per share HK$	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding at end of the year
Employees	24/04/15	24/04/15 to 23/04/18	1.09	20,000,000	–	20,000,000	–	–
	24/04/15	24/04/16 to 23/04/18	1.09	20,000,000	–	20,000,000	–	–
				40,000,000	–	40,000,000	–	–

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

As at 31 December 2018, the Directors of the Company had the following interests in the shares, underlying shares and debentures of the Company, its Group members and/or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long positions in shares of the Company

Name of director	Capacity	Number of Shares held	Approximate percentage of shareholding
Mr. Sun Shao Hua *(note)*	Interest of a controlled corporation Beneficial owner	408,000,000 7,500,000	30.16%

Note:

These shares are registered in the name of Novel Blaze Limited ("Novel Blaze"), the entire issued share capital of which is wholly and beneficially owned by Ms. Zheng Xue Xia. Ms. Zheng is the spouse of Mr. Sun Shao Hua. Therefore, Mr. Sun is deemed to be interested in all the Shares in which Ms. Zheng is deemed to be interested. In addition, Mr. Sun holds 7,500,000 shares.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, so far as is known to the Directors, the following entities, not being a Director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in shares of the Company

Name of entity	Capacity	Note	Number of Shares held	Approximate percentage of shareholding
Novel Blaze	Beneficial owner	1	408,000,000	29.62%
Ms. Zheng Xue Xia	Interest of a controlled corporation	2	408,000,000	
	Interest of spouse	2	7,500,000	30.16%
Wealthy Achievers Limited	Beneficial owner	3	352,857,143	25.62%
Mr. Peng Dongmiao	Interest of a controlled corporation	4	352,857,143	25.62%

Notes:

1. Novel Blaze is incorporated in the BVI and the entire issued share capital is beneficially owned by Ms. Zheng Xue Xia. Ms. Zheng, being the controlling shareholder, is deemed to be interested in the 408,000,000 Shares owned by Novel Blaze by virtue of the SFO.

2. The disclosed interest represents the interest in the Company held by Novel Blaze which is wholly and beneficially owned by Ms. Zheng Xue Xia. Therefore, Ms. Zheng is deemed to be interested in the interest of Novel Blaze in the Company by virtue of the SFO. In addition, Ms. Zheng is the wife of Mr. Sun Shao Hua and is deemed to be interested in the shares which are interested by Mr. Sun Shao Hua under the SFO.

3. Wealthy Achievers Limited is incorporated in the BVI and the entire issued share capital is beneficially owned by Mr. Peng Dongmiao. Mr. Peng, being the controlling shareholder, is deemed to be interested in the 352,857,143 Shares owned by Wealthy Achievers Limited by virtue of the SFO.

4. The disclosed interest represents the interest in the Company held by Wealthy Achievers Limited which is wholly and beneficially owned by Mr. Peng Dongmiao. Therefore, Mr. Peng is deemed to be interested in the interest of Wealthy Achievers Limited in the Company by virtue of the SFO.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2018, a permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for an indemnity against liability incurred by the Directors.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or its subsidiaries was a party and in which the controlling Shareholder or a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, there were no connected transactions and continuing connected transactions between the Group and its connected persons (as defined under the Listing Rules) which are subject to the reporting, announcement and the independent shareholders' approval requirement under the Listing Rules.

The material related party transactions as disclosed in Note 39 to the Consolidated Financial Statements are connected transactions exempt from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

CONTRACTUAL ARRANGEMENTS

Pursuant to applicable PRC Laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting mobile games business (the "Principal Business") and are restricted to conduct value-added telecommunications services and internet cultural business. Accordingly, we cannot acquire equity interest in Behill, which conducts our Principal Business and holds the assets and certain licenses, approvals and permits required for the operation of our Principal Business.

As a result of the foregoing, we, through our wholly-owned subsidiary, Chunxin (Xiamen) Investment Management Company Limited 純新(廈門)投資管理有限公司("Chunxin"), entered into a series of contracts (the "Contractual Arrangements") with Behill and Mr. Huang Jianqiang (黃建強) (the "Registered Shareholder") on 29 February 2016 to assert management control over the operations of our Principal Business conducted through Behill, and to enjoy all economic benefits of Behill, and in consideration of which, Chunxin shall provide, among others, technology consulting and service to Behill. Behill is an operating company of the Group established under the laws of the PRC to conduct the Principal Business. The Contractual Arrangements are designed to provide our Group with effective control over the financial and operation policies of Behill and, to the extent permitted by PRC law and regulations, the right to acquire the equity interests in and/or the assets of Behill through Chunxin. As we operate our Principal Business through Behill, which is controlled by Registered Shareholder, we do not hold any direct equity interest in Behill. Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations.

Major terms of the contracts under the Contractual Arrangements

The Contractual Arrangements currently in effect comprise four agreements, namely (i) the Exclusive Technological Support and Management Consulting Service Agreement, (ii) the Exclusive Call Option Agreement, (iii) the Equity Pledge Agreement and (iv) the Business Cooperation Agreement, which were entered into between or amongst Chunxin, Behill and the Registered Shareholder (as the case may be), and the irrevocable power of attorney executed the Registered Shareholder.

A summary of the major terms of the four agreements and the power of attorney of the Contractual Arrangements is as follows:

(a) *Exclusive Technological Support and Management Consulting Service Agreement*

Chunxin and Behill entered into an Exclusive Technological Support and Management Consulting Service Agreement on 29 February 2016, pursuant to which, among others:

i. Behill agreed to engage Chunxin as its exclusive consultant and service provider. The technology advices and services which Chunxin shall provide to Behill include, but are not limited to, (i) research and development of technologies necessary for the operations of Behill, (ii) application and implementation of technologies relevant to the operations of Behill, (iii) technical services related to advertisement design, software design, and webpage production with respect to Behill's advertising business, and provide management advices and recommendations, and (iv) daily maintenance, supervision, commissioning and troubleshooting of Behill's computer network equipment and other technical services; and

ii. Behill shall pay to Chunxin a service fee that is equals to its 100% profit before income tax (net of operating and other tax expenses) on a monthly basis.

The Exclusive Technological Support and Management Consulting Service Agreement may be terminated by Chunxin by giving Behill 30 days' prior written notice of termination or shall be terminated upon the transfer of the entire equity interests in and/or the transfer of all assets of Behill to Chunxin or its designated person(s) pursuant to the Exclusive Call Option Agreement. Behill is not contractually entitled to terminate the Exclusive Technological Support and Management Consulting Service Agreement with Chunxin.

(b) *Exclusive Call Option Agreement*

Chunxin, the Registered Shareholder and Behill entered into an Exclusive Call Option Agreement on 29 February 2016, pursuant to which, among others:

i. the Registered Shareholder irrevocably granted to Chunxin or any person(s) designated by Chunxin, the exclusive option(s) to purchase, to the extent permitted by PRC laws and regulations, his equity interests in Behill, entirely or partially, at an aggregate consideration of RMB1 or a minimum purchase price permitted by PRC laws and regulations (the "Agreed Price") for all option(s) exercised. The registered Shareholder has undertaken to reimburse Chunxin (or the person as designated by Chunxin), any of the difference between the actual consideration Chunxin (or the person as designated by Chunxin) paid pursuant to the exercise of the option(s) and the Agreed Price;

ii. Chunxin may exercise such options at any time until it or the person(s) designated by it has acquired the entire equity interest of Behill; and

iii. without prior written consent from Chunxin, Behill and the Registered Shareholder may not, among other things, (i) dispose of or procure other person(s) to dispose of any material assets of Behill (unless it arises in the ordinary course of business), or (ii) pass or approve any resolution with respect to the liquidation and dissolution of Behill.

The Exclusive Call Option Agreement shall expire when all the equity interests in and assets of Behill have been transferred to Chunxin or its designee, or may be terminated by Chunxin, at its sole discretion, gives Behill and the Registered Shareholder a 30 days' prior written notice of termination. Behill and the Registered Shareholder are not contractually entitled to terminate the Exclusive Call Option Agreement with Chunxin.

(c) *Equity Pledge Agreement*

Chunxin and the Registered Shareholder entered into the Equity Pledge Agreement on 29 February 2016, pursuant to which, among others:

i. the Registered Shareholder agreed to pledge all of the equity interests in Behill to Chunxin to secure the performance of all their obligations and the obligations of Behill under the Contractual Arrangements. Pursuant to the Equity Pledge Agreement, Chunxin has a first priority pledge on all or any part of the equity interests in Behill held by the Registered Shareholder. Under the Equity Pledge Agreement, if the Registered Shareholder and/or Behill breaches any obligation under the Contractual Arrangements, Chunxin, as the pledgee, is entitled to request the Registered Shareholder to transfer the pledged equity interests, entirely or partially to Chunxin and/or any entity or person as designated by Chunxin; and

ii. the Registered Shareholder has undertaken to Chunxin, among other things, not to transfer his interests in Behill and not to create any pledge thereon without Chunxin prior written consent.

The Equity Pledge Agreement may be terminated by Chunxin by giving Behill 30 days' prior written notice of termination or shall terminate when Behill has fulfilled and performed all obligations under the agreements underlying the Contractual Arrangements or upon the termination of the agreements underlying the Contractual Arrangements. Behill and the Registered Shareholder are not contractually entitled to terminate the Equity Pledge Agreement with Chunxin.

(d) *Business Cooperation Agreement*

Chunxin, the Registered Shareholder and Behill entered into a Business Cooperation Agreement on 29 February 2016, pursuant to which, among others:

i. Behill and the Registered Shareholder shall appoint persons to be designated by Chunxin to be the chairman (when applicable), director/executive directors, general manager, chief financial controller and other senior management of Behill. Behill shall be operated in accordance with Chunxin's instruction and the Registered Shareholder has undertaken not to act in any manner that may affect the assets, business, personnel, obligations, rights or the operations of Behill, unless with the prior written consent of Chunxin or its appointee;

ii. unless with the prior written consent of Chunxin or its appointee, the Registered Shareholder will not sell, transfer, lease any of the material assets or rights of Behill or authorise any third party the right to use, including but not limited to, any know-how, trade secrets, domain names, trade marks, patents, copyright of Behill, or any material assets or rights acquired by Behill;

iii. Chunxin shall have the right to obtain and review the business data, financial information and other information relevant to the operations and business of Behill; and

iv. appropriate arrangements have been made to protect Chunxin's interests in the event of death, incapacity, bankruptcy or divorce of the Registered Shareholder or any other circumstances that may affect their exercise of the shareholders' rights to avoid any practical difficulties in enforcing the Business Cooperation Agreement.

The Business Cooperation Agreement shall expire upon the transfer of the entire equity interests in and/or the transfer of all assets of Behill to Chunxin or its designated person(s) pursuant to the Exclusive Call Option Agreement, or may be terminated by Chunxin, at its sole discretion, gives Behill and the Registered Shareholder a 30 days' prior written notice of termination. Behill and the Registered Shareholder are not contractually entitled to terminate the Business Cooperation Agreement with Chunxin.

(e) *Power of Attorney*

On 29 February 2016, the Registered Shareholder executed an irrevocable Power of Attorney to authorise Chunxin to exercise all of his rights and powers as shareholder of Behill. Pursuant to the Power of Attorney, the shareholders' rights exercisable by the proxy include, but not limited to, the rights to (i) attend shareholders' meetings and pass any shareholders' resolution of Behill; (ii) exercise all shareholders' rights in accordance with applicable laws and the articles and constitutional documents of Behill; (iii) submit and/or file any documents or information to relevant companies registry; and (iv) elect and appoint the legal representative, chairman, directors, supervisors, general manager and other senior management of Behill.

Under the Power of Attorney, the Registered Shareholder irrevocably confirmed that the power of attorney shall remain in full force and effect during the term which the Registered Shareholder remains as the shareholder of Behill.

Apart from the above, there are no new Contractual Arrangements entered into, renewed or reproduced among the Group, the Registered Shareholder and Behill during the year ended 31 December 2018.

Risks associated with the Contractual Arrangements

There are certain risks associated with the Contractual Arrangements, which include, but not limited to: (i) there is no assurance that the Contractual Arrangements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the Contractual Arrangements do not comply with applicable regulations; (ii) the Contractual Arrangements may not be as effective as direct ownership in providing control over Behill; (iii) the Registered Shareholder may potentially have a conflict of interests with the Group; (iv) the Contractual Arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed; (v) certain terms of the Contractual Arrangements may not be enforceable under the PRC laws; (vi) a substantial amount of costs and time may be involved in transferring the ownership of Behill to the Group under the Exclusive Option Agreement; (vii) the Company does not have any insurance which covers the risks relating to the Contractual Arrangements and the transactions contemplated thereunder; (viii) the Group may bear economic risk which may arise from difficulties in the operation of Behill. For further details of the risks associated with the Contractual Arrangements, please refer to the section headed "Risk Factors in relation to the VIE Contracts" of the Circular dated 29 February 2016.

Measures adopted by our Group

Our Group has adopted various measures to ensure legal and regulatory compliance and to ensure the sound and effective operation of our Group (including Behill) and the implementation of the Contractual Arrangements, which include, but not limited to: (i) the Group has appointed a representative (the "Representative") to act as the sole executive director of Behill. The Representative will conduct weekly reviews on the operations of Behill and submit the weekly reviews to the Board. The Representative will also check the authenticity of the monthly management accounts of Behill; (ii) the Representative is stationed at Behill and is actively involved in various aspects of the daily managerial and operational activities of Behill; (iii) the Representative will report any major events of Behill to the company secretary of the Company (the "Company Secretary"), who in turn report to the Board; (iv) the Company Secretary will conduct regular site visits to Behill and conduct personnel interviews quarterly and submitted reports to the Board; (v) all seals, chops, incorporation documents and all other legal documents, to the extent permitted by the PRC law, of Behill are kept at the office of Chunxin; (vi) the financial controller (the "FC") of the Company will collect monthly management accounts, bank statements and cash balances and major operational data of Behill for review. Upon discovery of any suspicious matters, the FC will report to the Company Secretary, who in turn report to the Board; (vii) if the payment of the service fees from Behill to Chunxin is delayed, the FC will meet with the shareholder of Behill to investigate, and report any suspicious matters to the Board; (viii) Behill will submit copies of latest bank statements for every bank accounts of Behill within 15 days after the end of each month; (ix) Behill will assist and facilitate the Company to conduct quarterly on-site internal audit on Behill; (x) the independent non-executive Directors will review the compliance of the Contractual Arrangements on an annual basis and their confirmation will be disclosed in the annual report; (xi) if necessary, legal advisors and/or other professionals will be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements and to ensure that the operation and implementation of the Contractual Arrangements as a whole will comply with applicable laws and regulations; and (xii) our Group will unwind the Contractual Arrangements as soon as relevant PRC laws and regulations allow the Principal Business to be conducted and operated by owned subsidiaries of our Company without such arrangements in place.

Revenue and assets subject to the Contractual Arrangements

For the year ended 31 December 2018, the revenue and net loss subject to the Contractual Arrangements are RMB235.4 million and RMB33.6 million (amounted to approximately 34.1% and 9.7% of the total revenue and net loss of the Group), respectively.

As at 31 December, 2018, the total assets subject to the Contractual Arrangements is RMB170.4 million, amounted to approximately 18.9% of the total assets of the Group.

Change of circumstances

There had been no material change in the arrangements under the Contractual Arrangements and/or the circumstances under which they were adopted. As of the date of this annual report, the foreign investment restrictions which gave rise to the arrangements under the Contractual Arrangements are still in existence.

Independent non-executive Directors' confirmation

The Independent non-executive Directors of the Company are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the Group's legal structure and business operations, that such transactions are on normal commercial terms and are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

The independent non-executive directors of the Company reviewed the Contractual Arrangements and confirmed that:

(i) the transactions carried out during the year ended 31 December 2018 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, and have been operated so that the profit generated by Behill has been substantially retained by Chunxin;

(ii) no dividends or other distributions have been made by Behill 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 Behill during the year ended 31 December 2018.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

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

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company gives priority to distributing dividend in cash and shares its profits with its shareholders. The dividend payout ratio shall be determined or recommended, as appropriate, by the Board at its absolute discretion after taking into account the Company's financial results, future prospects and other factors, and subject to:

– the Articles of Association of the Company;

– the applicable restrictions and requirements under the laws of the Cayman Islands;

– any banking or other funding covenants by which the Company is bound from time to time;

– the investment and operating requirements of the Company; and

– any other factors that have material impact on the Company.

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 prescribed public float under the Listing Rules as at the date of this annual report.

CORPORATE GOVERNANCE

The Company is committed to adopt corporate governance practice. The Company's corporate governance practices are set out in the Corporate Governance Report on pages 7 to 15.

AUDITORS

The consolidated financial statements for the year ended 31 December 2018 have been audited by HLB Hodgson Impey Cheng Limited which retires, and being eligible, offer itself for re-appointment at 2019 AGM. A resolution to re-appoint HLB Hodgson Impey Cheng Limited and to authorise the Directors to fix its remuneration will be proposed at the 2019 AGM.

On behalf of the Board
Chen Hong Cai
Chairman and Executive Director
Jiangxi Province, the PRC, 29 March 2019

Independent Auditors' Report

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF MOBILE INTERNET (CHINA) HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Mobile Internet (China) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 155, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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 (continued)

Key audit matter	How our audit addressed the key audit matter

Impairment assessment on goodwill and intangible assets

Refer to Notes 3, 18 and 19 to the consolidated financial statements.

The Group has goodwill and intangible assets with carrying amounts of approximately RMB229,248,000 and RMB15,692,000 respectively which are allocated to the cash-generating-unit of Cable King Limited and its subsidiaries ("CGU") as at 31 December 2018. Management performed impairment assessment of CGU and concluded that impairment on goodwill of approximately RMB200,609,000 has recognised. This conclusion was based on value-in-use model that required management judgement with respect to the discount rate and underlying cash flows, in particular future revenue growth and capital expenditure. Independent external valuation reports were obtained in order to support management's estimates.

Our procedures in relation to the management's impairment assessment included:

- Evaluating the independent external valuer's competence, capabilities and objectivity;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; and
- Checking, on sampling basis, the accuracy and relevance of the input data used.

We found the key assumptions were supported by the available evidence.

Revenue recognition of mobile and web game operation

Refer to Notes 3, 7 and 31 to the consolidated financial statements.

The Group recognised revenue of RMB235,389,000 from mobile and web game operation for the year ended 31 December 2018. Revenue is recognised when related in-game items and premium features are provided to players. The income received in respect of unutilised virtual currency is recognised as contract liabilities.

In assessing the fair value of virtual currency, management require to make estimation on the selling price of virtual currency. Significant management estimation is required in assessing the selling price of the virtual currency.

Our procedure in relation to the revenue recognition of game operation:

- Evaluating whether the Group's revenue recognition policies in compliance with HKFRSs for the mobile and web game operations;
- Obtaining the mobile and web game operations data used for calculation of revenue and contract liabilities generated by mobile and web game operation system;
- Recalculating the revenue and contract liabilities based on mobile and web game operation data with reference to the Group's revenue recognition policies; and
- Checking, on sampling basis, the game players in game payments and cash receipt.

We consider revenue recognition consistent with the Group's revenue recognition policies.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "Other Information").

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 THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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 the 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.

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

AUDITORS' 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 auditors' 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 HKSAs 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 HKSAs, we exercise professional judgment and maintain professional skepticism 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.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- 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 auditors' 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 auditors' 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.

We communicate with the Audit 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 the Audit 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 the Audit 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 auditors' 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 director on the audit resulting in this independent auditors' report is Ng Ka Wah.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Ng Ka Wah
Practicing Certificate Number: P06417

Hong Kong, 29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	7	690,750	1,020,012
Cost of sales		(525,104)	(637,953)
Gross profit		165,646	382,059
Other revenue	8	3,364	4,589
Other income	9	1,610	7,365
Selling and distribution expenses		(172,587)	(175,698)
Administrative expenses		(86,701)	(51,739)
Amortisation of intangible assets	19	(5,166)	(21,010)
Impairment loss on goodwill	18	(200,609)	–
Loss on early redemption of promissory notes		(348)	–
(Loss)/profit from operations before fair value changes		(294,791)	145,566
Change in fair value of derivative financial instruments		(8,733)	1,860
Change in fair value of contingent consideration payable	30	–	(143,376)
(Loss)/profit from operations		(303,524)	4,050
Finance costs	12	(32,751)	(33,033)
Loss before tax	10	(336,275)	(28,983)
Income tax expenses	13	(9,601)	(21,668)
Loss for the year		(345,876)	(50,651)
Other comprehensive (loss)/income for the year, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(14,361)	25,077
Other comprehensive (loss)/income for the year, net of tax		(14,361)	25,077
Total comprehensive loss for the year, net of tax		(360,237)	(25,574)
Loss attributable to owners of the Company		(345,876)	(50,651)
Total comprehensive loss attributable to owners of the Company		(360,237)	(25,574)
Loss per share attributable to owners of the Company			
– Basic (RMB cents)	15	(25.40)	(4.18)
– Diluted (RMB cents)	15	(25.40)	(4.18)

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	16	208,779	134,655
Prepaid lease payments	17	2,135	2,195
Goodwill	18	229,248	429,857
Intangible assets	19	15,692	7,165
Long-term prepayment	20	2,710	5,199
		458,564	579,071
Current assets			
Inventories	21	42,253	30,008
Trade receivables	22	61,649	140,539
Prepayments, deposits and other receivables	23	69,191	75,777
Derivative financial instruments	24	–	9,596
Pledged bank deposits	25	–	12,000
Cash and bank balances	25	268,320	463,942
		441,413	731,862
Current liabilities			
Trade, bills, other payables and accruals	26	60,354	132,564
Borrowings	27	92,797	53,000
Derivative financial instruments	24	–	811
Promissory notes	28	258,434	166,563
Convertible bonds	29	8,153	16,922
Deferred revenue	31	–	16,362
Contract liabilities	31	1,310	–
Tax payables		–	3,033
		421,048	389,255
Net current assets		20,365	342,607
Total assets less current liabilities		478,929	921,678
Non-current liability			
Promissory notes	28	–	127,599
		–	127,599
Net assets		478,929	794,079
Capital and reserves attributable to owners of the Company			
Share capital	33	11,161	10,760
Reserves		467,768	783,319
Total equity		478,929	794,079

Approved by the board on 29 March 2019 and signed on its behalf by:

Mr. Chen Hong Cai
Chairman

Mr. Sun Shao Hua
Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital RMB'000 Note 33(a)	Share premium RMB'000	Share option reserve RMB'000 Note 33b(i)	Convertible bonds reserve RMB'000 Note 33b(ii)	Statutory reserve RMB'000 Note 33b(iii)	Other reserve RMB'000 Note 33b(iv)	Exchange reserve RMB'000 Note 33b(v)	Retained profit/ (accumulated loss) RMB'000	Total RMB'000
At 1 January 2017	9,150	301,583	22,594	4,706	36,869	15,901	(19,639)	208,736	579,900
Loss of the year	–	–	–	–	–	–	–	(50,651)	(50,651)
Other comprehensive income for the year	–	–	–	–	–	–	25,077	–	25,077
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	25,077	(50,651)	(25,574)
Dividend paid (Note 14)	–	(20,023)	–	–	–	–	–	–	(20,023)
Issue of ordinary shares upon conversion of convertible bonds	160	18,903	–	(2,585)	–	–	–	–	16,478
Exercise of share options	338	29,927	(8,276)	–	–	–	–	–	21,989
Allotment and issue of shares	1,112	220,197	–	–	–	–	–	–	221,309
Transfer of statutory reserve	–	–	–	–	12,981	–	–	(12,981)	–
At 31 December 2017 and 1 January 2018	10,760	550,587	14,318	2,121	49,850	15,901	5,438	145,104	794,079
Loss for the year	–	–	–	–	–	–	–	(345,876)	(345,876)
Other comprehensive loss for the year	–	–	–	–	–	–	(14,361)	–	(14,361)
Total comprehensive loss for the year	–	–	–	–	–	–	(14,361)	(345,876)	(360,237)
Issue of ordinary shares upon conversion of convertible bonds	79	11,596	–	(1,695)	–	–	–	–	9,980
Exercise of share options	322	49,103	(14,318)	–	–	–	–	–	35,107
At 31 December 2018	**11,161**	**611,286**	**–**	**426**	**49,850**	**15,901**	**(8,923)**	**(200,772)**	**478,929**

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Operating activities			
Loss before tax		(336,275)	(28,983)
Adjustments for:			
Amortisation of prepaid lease payments	10, 17	60	60
Amortisation of intangible assets	10, 19	5,166	21,010
Allowance for expected credit loss expenses/impairment loss recognised in respect of financial assets carried at amortised cost	6	4,693	–
Depreciation of property, plant and equipment	10, 16	16,402	15,124
Finance costs	12	32,751	33,033
Change in fair value of derivative financial instruments		8,733	(1,860)
Change in fair value of contingent consideration payable		–	143,736
Loss on disposal of property, plant and equipment	10	2,364	–
Loss on early redemption of promissory notes		348	–
Impairment loss on goodwill	18	200,609	–
Interest income	8	(1,298)	(2,553)
Operating cash flows before movement in working capital		(66,447)	179,207
Increase in inventories		(12,245)	(1,886)
Decrease in trade receivables		74,197	14,829
Decrease/(increase) in prepayments, deposit and other receivables		6,609	(4,350)
Increase in trade, bills, other payables and accruals		(72,325)	(11,497)
Decrease in contract liabilities/deferred revenue		(15,052)	(41,255)
Decrease in pledged bank deposits		12,000	47,456
Cash (used in)/generated from operations		(73,263)	182,504
PRC tax paid		(12,634)	(25,516)
Net cash (used in)/generated from operating activities		(85,897)	156,988
Investing activities			
Interest received		1,298	2,553
Long-term prepayment addition		(3,204)	(9,074)
Addition of intangible assets		(8,000)	–
Purchase of property, plant and equipment	16	(95,020)	(2,057)
Proceeds from disposal of property, plant and equipment		2,137	–
Dividend paid		–	(20,023)
Net cash used in investing activities		(102,789)	(28,601)
Financing activities			
Interest paid on convertible bonds and promissory notes		(24,937)	(16,410)
Proceeds from borrowings		55,176	53,000
Repayments of borrowings		(17,000)	(91,110)
Bank borrowings interest paid		(3,489)	(4,301)
Proceeds from shares issued under share option scheme		35,107	21,989
Early redemption of promissory note		(53,589)	–
Net cash used in financing activities		(8,732)	(36,832)
Net (decrease)/increase in cash and cash equivalents		(197,418)	91,555
Cash and cash equivalents at the beginning of the year		463,942	374,335
Effect of exchange rate on the balances of cash held in foreign currencies		1,796	(1,948)
Cash and cash equivalents at the end of the year		268,320	463,942

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The Company was incorporated in Cayman Islands on 12 July 2013 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit 2604, 26th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 13 January 2014.

Pursuant to a special resolution passed at an extraordinary general meeting on 12 July 2017, the Company changed its name from "China Packaging Holdings Development Limited" to "Mobile Internet (China) Holdings Limited" and the dual foreign name in Chinese of the Company changed from "中華包裝控股發展有限公司 to "移動互聯(中國)控股有限公司". The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 25 July 2017 certifying that the new English name of the Company and the new dual foreign name in Chinese of the Company have been registered in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The Company acts as an investment holding company while its principal operating subsidiaries are engaged in manufacturing and sales of packaging materials and development, distribution and operation of mobile gaming products.

The directors of the Company (the "Directors") consider the parent and the ultimate holding company of the Company to be Novel Blaze Limited ("Novel Blaze"), a company incorporated in the British Virgin Islands (the "BVI") with limited liability. Its ultimate controlling party is Ms. Zheng Xue Xia, who is a spouse of the executive director of the Company, Mr. Sun Shao Hua.

The consolidated financial statements are presented in Renminbi ("RMB") and rounded to the nearest thousand (RMB'000), unless otherwise stated. RMB is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group. The functional currency of the Company is Hong Kong dollars ("HK$"). The Directors consider that choosing RMB as the presentation currency best suits the needs of the shareholders and investors.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning from 1 January 2018. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

HKAS 28 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in the consolidated financial statements.

The above new HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the application of new HKFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Consolidated statement of financial position (extract)	**31 December 2017** RMB'000	**HKFRS 15** RMB'000	**1 January 2018** RMB'000
Current liabilities			
Deferred revenue	16,362	(16,362)	–
Contract liabilities	–	16,362	**16,362**

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1 January 2018. The difference between carrying amounts at 31 December 2017 and the carrying amounts at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

(a) Classification and measurement

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial assets is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

— Amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

— FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

— FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including) interest are recognised in profit or loss.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 Financial Instruments (continued)

(a) Classification and measurement (continued)

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

There is no reclassification or remeasurement of the financial assets, including cash and bank balances, trade receivables, deposits, other receivables and pledged bank deposits for the adoption of HKFRS 9.

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

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, the remaining balances are grouped based on internal credit rating. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including deposits, other receivables, time deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

The directors considered that the measurement of ECL has no material impact to the Group's retained profit as at 1 January 2018.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 Revenue from Contracts with Customers and the related amendments

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to the contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared with HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue mainly from following major sources which arise from contracts with customers.

— Manufacturing and sales of packaging materials

— Development, distribution and operation of mobile gaming products

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in note to the audited consolidated financial statements.

Except for the reclassification of the contract liabilities from deferred revenue of approximately RMB16,362,000 at initial application, HKFRS 15 was generally adopted without restating any other comparative information. There is no impact of transition to HKFRS 15 on retained earnings at 1 January 2018.

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

	HKAS 18 carrying amounts at 31 December 2017 RMB'000	Reclassification	HKFRS 15 carrying amounts at 1 January 2018 RMB'000
Deferred revenue (Note)	16,362	(16,362)	–
Contract liabilities (Note)	–	16,362	16,362

Note:

For contracts where the period between the payment by the customer and transfer of the promised goods exceeds one year, the transaction price should be adjusted for the effects of a financing component, if significant. The Group has assessed that the financing component effect was insignificant.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1 January 2018.

New and revised HKFRSs that have been issued but are not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[3]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HKFRS 3 (Amendments)	Definition of a business[2]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2020
4 Effective for annual periods beginning on or after 1 January 2021
5 Effective for annual periods beginning or after a date to be determined

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RMB3,151,000 as disclosed in Note 39 to the financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Except disclosed above, the directors do not anticipate that the application of other new and revised HKFRSs will have a material impact on the Group's financial performance and financial positions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by HKICPA and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of polices and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the consolidated financial statements.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

(i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

(ii) liabilities or equity instruments related to share-based payment arrangement of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meeting.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly venture.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

A cash-generating unit ("CGU") or group of CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant of CGU or any of the cash-generating unit within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

Subsidiaries

A subsidiary is a company in which the Company directly or indirectly controls more than half of the voting power, or controls the composition of the board of directors. Investments in subsidiaries are carried in the Company's financial statement at cost less impairment loss.

Revenue and other income

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and other income (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (continued)

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

(i) Sales of goods

For sales of paper-based packaging products, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery). Following delivery, the buyer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when selling the goods and bears the risks of obsolescence and loss in relation to the goods.

(ii) Revenue from mobile and web game operation

Mobile and web games operation – Gross basis (Exclusive operation)

The Group operates certain games developed by game developer and self-developed mobile and web games through the Group's platform. The Group is responsible for technical support. The platforms are responsible for distribution and, collections from players.

The Group primarily operates its mobile and web games under free to play model. Players can purchase virtual currency to obtain in-games items and premium features, commonly known as virtual items. These third-party payment platforms are entitled to service fees which are withheld and deducted from the gross proceeds collected from the players, with the net amounts remitted to the Group. These service fees are commonly referred to as channel costs. The considerations received for purchase of the virtual currency is non-refundable and related channel costs are non-cancellable. The revenue is recognised when the related in-games items and premium features are provided to players. The Group recognises revenue on a gross basis when the Group acting as the principal in these transactions, and records the channel cost under cost of sales in the consolidated statement of profit or loss and other comprehensive income.

Revenue from the virtual currency are recognised ratably over the period the virtual currency are expected consumed. At each reporting date, the income received in respect of unutilised virtual currency is recognised as contract liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and other income (continued)

(ii) Revenue from mobile and web game operation (continued)

Mobile and web game operation – Net basis (Joint operation)

The Group operated certain web games which were developed by other game developers. The Group is only responsible for promoting the game and is considered as the agents of the game developers. The Group receives commission based on a certain portion of the purchase amount for in game virtual currency remitted by players through different payment platforms. After deducting channel cost charged by the payment platforms and the sharing amount to game developers, the Group recognises the rest of the amount as revenue. Revenue is recognised over the game player playing periods and recognised upon the purchase action by players.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

(iii) Other services

Revenue from the provision of services is recognised over the period because the customer simultaneously receives and consumes the benefits provided by the Group.

(iv) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "interest income" where it is mainly earned from financial assets that are held for cash management purposes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue excludes value-added tax and is reduced for estimated customer returns, rebates and other similar allowances.

Sales of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Mobile and web games operation – Gross basis (Exclusive operation)

The Group operates certain games developed by game developer and self-developed mobile and web games through the Group's platform and cooperation with various third-party game distribution and publishing platforms including online application stores, web-based and mobile game portals (the "Game Distribution Channels"). The Group is responsible for technical support. The platforms are responsible for distribution and, collections from players.

The Group operates mobile and web games that allow players to play for free. Players can purchase virtual currency to obtain in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience. Players can pay for virtual currency using different payment platforms. The Game Distribution Channels and game developer are entitled to the relevant service fees which are withheld and deducted from the gross proceeds of virtual currency collected from the players, with the net amounts remitted to the Group. The portion of the proceeds received by Group is calculated based on the payments collections from players and the agreed share ratio in contracts with Game Distribution Channels and game developer. The consideration received for the purchase of the virtual currency or virtual items is non-refundable and the related contracts are non-cancellable. For the self-developed mobile and web game, such consideration received is initially included in deferred revenue on the consolidated statement of financial position. The Group recognises revenue on a gross basis when actual usage of virtual currency by the customers and recognise the relevant service fees and revenue-sharing to Game Distribution Channels and game developer as cost of sales in the consolidated statement of profit or loss and other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to 1 January 2018) (continued)

Mobile and web games operation – Net basis (Joint operation)

The virtual items are considered value-added services and rendered over a pre-specified period or throughout the whole game life. The revenue from these virtual item is recognised either upon consumption or ratably over the practical usage period predetermined in the game or throughout the estimated use life of paying players as appropriate. Future usage patterns may differ from the historical usage patterns on which the Group's revenue recognition policy is based. The Group monitors the operational statistics and usage patterns of the virtual items. Once virtual currency is charged to a player's personal mobile game account, it can be used by the player until the specific game has been closed down. Unused balance of virtual currency is recognised as revenue when the specific game has been closed down.

The Group operated certain web games which were developed by other game developers under joint operation, the Group is only responsible for promoting the game and is considered as the agents of the game developers. The Group receives commission based on a certain portion of the purchase amount for in-game currency remitted by players through Game Distribution Channels. After deducting the commission charged by the Game Distribution Channels and the sharing amount to game developers, the Group recognise the rest of the amount. Revenue is measured at the amount of the commission and recognised upon the purchase action by players.

Mobile and web games licensing

The Group licenses its self-developed games to other third-party game operators and generally receives revenue in forms of initial license fees, monthly revenue-based fees under revenue-sharing arrangement or a combination and sales of copyright (source code) of game. The initial license fee is generally a fixed amount and recognised ratably over the term of the license. The revenue-based fees under revenue-sharing arrangement are generally equal to a fixed percentage of the revenues generated by the game operators from the sale of virtual items and are recognised when the game operators provide the Group the monthly billing confirmation.

Other services income

Revenue from other services income is recognised when the relevant service is provided.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease, Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid lease payments' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Items included in the consolidated financial statements of each of the companies now comprising the Group are measures using the currency of the primary environment in which the companies operate (the "functional currency").

In preparing the financial information of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquires arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of exchange reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as and when the Group performs under the contract.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Payment to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

In the reporting period in which an employee has rendered services, the Group recognises the employee benefit expenses for those services in profit or loss.

The Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the Government of the People's Republic of China (the "PRC"), including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share option expense

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible persons for their contributions to the Group.

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property and equipment, less their residual values over their estimated useful lives, using straight-line method.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

	Useful lives
Machinery	10 years
Computer and office equipment	5 years
Motor vehicles	5 years
Building	20 years
Leasehold improvements	Over the lease terms

Intangible assets

(a) *Game*

Game is initially recognised and measured at cost less amortization. Acquired game licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are amortised over their estimated useful lives of 1 to 2 years.

(b) *Research and development costs*

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible asset with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets other than goodwill (continued)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest and dividend income which are derived from the financial assets and shareholders' rights are presented as other revenue and other income.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9) (continued)

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other revenue and other income" line item.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets at FVTPL (continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables and cash and bank balances). The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting period. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting period as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Significant increase in credit risk (continued)

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets 'at FVTPL, 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loan and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets classified as at FVTPL

Financial assets are classified as at fair value though profit or loss when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 5.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, other receivables, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment,

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments: or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

For certain categories of financial assets, such as trade receivables, asset that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the preciously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instruments is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liabilities are designated at FVTPL on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with changes at fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities (including trade, bills, other payables and accruals and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs add other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other that financial liabilities classified as at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the precious carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligation are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivative are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or losses on fair value changes is recognised in profit or loss.

Embedded derivatives (under HKFRS 9 since 1 January 2018)

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Embedded derivatives (before application of HKFRS 9 on 1 January 2018)

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities, equity and derivatives in accordance with the substance of the contractual arrangements and the definitions of a financial liability, an equity instrument and derivative financial instruments. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

Cash and bank balances

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Related Parties Transactions

A party is considered to be related to the Group if:

(1) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(2) An entity is related to the Group if any of the following condition applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (1).
- (vii) A person identified in (1) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related Parties Transactions (continued)

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligation between related parties.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next year, are discussed below:

Income taxes and deferred taxation

The Group is subject to PRC income taxes. Significant judgement is required in determining the provision for income taxes. 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 taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year, no impairments on goodwill and intangible assets were made.

Impairment of inventories

The management reviews an aging analysis at the end of the reporting period, and makes impairment for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of the reporting period and makes impairment for obsolete and slow-moving items, when necessary. During the year, no impairments on inventories were made.

Fair value measurement of derivative financial instruments

The derivative financial instruments have been valued based on valuation technique. The valuation required the Group to make estimates about earning volatility, earning growth rate and discount rate, and hence they are subject to uncertainty. Further details are contained in Notes 5 and 24 to the consolidated financial statements.

Self-developed mobile and web game operation revenue recognition

Self-developed mobile and web game revenue is recognised based on the actual consumption of the virtual items. Income received in respect of unutilised virtual item is recognised as deferred revenue. The Group determines the deferred revenue based on amount of unutilised virtual items and estimated average selling price of virtual currency.

For games operated by the Group and data of unutilised virtual items and currency are applicable, the Group recognises deferred revenue based on amount of unutilised virtual items and virtual currency; and estimated average selling price of virtual currency.

Serval in game promotion was conducted to promote purchase of virtual currency. In assessing the amount of average sales value for the virtual currency, management considers the promotional virtual currency and virtual currency purchased by game player are same. The average sales value of virtual currency is then determined by divide total income received to the total virtual currency granted to game player. If the actual sales value of the virtual currency differs from management's assessment, the amount of deferred income as well as mobile and web game operation revenue recognised would be affected.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Principal versus agent consideration (principal)

The Group engages in sales of packaging material and operation of mobile gaming products. Upon application of HKFRS 15, the Group reassessed whether the Group should continue to recognise revenue on gross basis based on the requirements in HKFRS 15. The Group concluded that the Group acts as the principal for such transactions as it controls the specified good before it is transferred to the customer after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods. The Group has inventory risk.

Principal versus agent consideration (agent)

Under HKAS 18, the Group recognised sales of mobile gaming products on a gross basis, i.e. the Group was considered as a principal, due to its significant exposure to credit risk of customers. Upon application of HKFRS 15, the Group is considered as an agent, the performance obligation is to arrange for the provision of promotion service of gaming products as the Group did not obtain the control over the goods before passing on to customers taking into consideration indicators such as the Group is not primarily responsible for fulfilling the promise to provide the mobile gaming products in specified quality and not exposed to inventory risk.

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 5.

5. FINANCIAL INSTRUMENTS

Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follow:

	2018 RMB'000	2017 RMB'000
Financial assets		
At amortised cost		
– Trade receivables	61,649	140,539
– Other receivables	3	101
– Pledged bank deposits	–	12,000
– Cash and bank balances	268,320	463,942
	329,972	616,582
At fair value through profit or loss		
Derivative financial instruments	–	9,596
	329,972	626,178
Financial liabilities		
At amortised cost		
– Trade, bills, other payables and accruals	60,354	132,564
– Promissory notes	258,434	294,162
– Convertible bonds	8,153	16,922
– Borrowings	92,797	53,000
	419,738	496,648
At fair value through profit or loss		
– Derivative financial instruments	–	811
	419,738	497,459

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies

The Company's major financial instruments include trade receivables, other receivables, pledged bank deposits, cash and bank balances, trade, bills, other payables and accruals, bank borrowings, promissory note, convertible bonds and derivative financial instruments. The details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The credit risk of the Group mainly arises from cash and bank balances, trade receivables, pledged bank deposits and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

As at 31 December 2018, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause the carrying amount of each financial asset in the consolidated statement of financial position, net of total carrying amounts of RMB329,972,000. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables arising from contracts with customers

The Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 3 years as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

Other receivables

As at 31 December 2018 and 2017, the management considers the other receivables to be immaterial and does not perform credit loss allowance on other receivables.

Cash and cash equivalents

As at 31 December 2018 and 2017, all cash and cash equivalents were deposited in state owned banks and reputable financial institutions and were hence without significant credit risk. Management does not expect any losses from non-performance by these counterparties.

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Credit risk (continued)

Provision matrix – debtors' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its manufacturing and sales of packaging materials operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired).

Trade receivables	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.17%	61,754	105

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided approximately RMB105,000 (2017: Nil) impairment allowance for trade receivables, based on the provision matrix.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under HKAS 39	–	–	–
Adjustment upon application of HKFRS 9	–	–	–
As at 1 January 2018 – As restated	–	–	–
Change due to financial instruments recognised as at 1 January			
– Impairment losses recognised	**105**	**4,588**	**4,693**
– Write-offs	**–**	**(4,588)**	**(4,588)**
As at 31 December 2018	**105**	**–**	**105**

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

The Group's financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective end of the reporting periods to the contractual maturity date, using the contractual undiscounted cash flows, as follows:

	Weighted average interest rate %	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000
31 December 2018							
Non-derivative financial liabilities							
Trade, bills, other payables and accruals	–	60,354	60,354	–	–	–	60,354
Promissory notes	9.06	258,434	267,019	–	–	–	267,019
Convertible bonds	18.08	8,153	8,342	–	–	–	8,342
Borrowings	12.00	92,797	99,166	–	–	–	99,166
		419,738	434,881	–	–	–	434,881

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Liquidity risk (continued)

	Weighted average interest rate %	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000
31 December 2017							
Non-derivative financial liabilities							
Trade, bills, other payables and accruals	–	132,564	132,564	–	–	–	132,564
Promissory notes	8.61	294,162	183,692	135,567	–	–	319,259
Convertible bonds	20.85	16,922	18,350	–	–	–	18,350
Borrowings	6.73	53,000	57,045	–	–	–	57,045
		496,648	391,651	135,567	–	–	527,218
Derivative financial liabilities							
Derivative financial instruments	–	811	–	–	–	–	–

Interest rate risk

The Group considers that there is no significant cash flow interest rate risk and fair value interest rate risk as the Group does not have variable rate borrowings. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

No sensitivity analysis is prepared since the Group is not subject to significant cash flow interest rate risk and fair value interest rate risk.

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Currency risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The main operations of the Group were in the PRC and most of the transactions were denominated in RMB. The Company did not use any derivative financial instruments to hedge for its foreign exchange risk exposure during the years.

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, a majority of the business transactions are denominated in RMB, and the proportion of foreign currency transactions are not significant to the Group.

The Directors consider that the currency risk of the Group's operations is immaterial due to the relatively low proportion of the Group's foreign currency denominated assets, liabilities, income and expense, as compared to the Group's total assets, liabilities, income and expense. Hence, no future analysis is presented.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

(ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

(iii) the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Except for the liability component of convertible bonds which recorded at amortised cost as below, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's consolidated statement of financial position approximate to their fair values.

	31 December 2018		31 December 2017	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Convertible bonds	**8,153**	**8,487**	16,922	17,901

The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without conversion option.

5. FINANCIAL INSTRUMENTS (continued)

Fair value estimation

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value as at 31 December 2018, grouped into Level 1 to Level 3 based on the degree to which the fair value is observable.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
31 December 2018				
Assets				
Derivative financial instruments	–	–	–	–
Liability				
Derivative financial instruments	–	–	–	–
31 December 2017				
Assets				
Derivative financial instruments	–	–	9,596	9,596
Liability				
Derivative financial instruments	–	–	811	811

There were no transfers between Levels 1, 2 and 3 in both years.

5. FINANCIAL INSTRUMENTS (continued)

Fair value estimation (continued)

Some of the Group's and the Company's financial assets and financial liabilities are measured at fair value at 31 December 2018. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	Fair value as at 31 December 2018 RMB'000	31 December 2017 RMB'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
Financial assets					
Derivative financial instruments: – Redemption option derivative embedded in the promissory note 1	–	888	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate	Discount rate of 14.30% (Note (ii))
Derivative financial instruments: – Redemption option derivative embedded in the promissory note 2	–	1,899	Level 3	Hull White model with Trinomial Tree method **Key inputs:** Discount rate	Discount rate of 14.80% (Note (iii))
Derivative financial instruments: – Term extension dervative embedded in the promissory note 3	–	2,427	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate	Discount rate of 14.30% (Note (iv))
Derivative financial instruments: – Redemption option derivative embedded in the promissory note 3	–	3,420	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate	Discount rate of 14.30% (Note (v))

5. FINANCIAL INSTRUMENTS (continued)

Fair value estimation (continued)

	Fair value as at 31 December 2018 RMB'000	31 December 2017 RMB'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
Financial assets (continued)					
Derivative financial instruments: – Redemption option derivative embedded in the promissory note 4	–	1	Level 3	Hull White model with Trinomial Tree method **Key inputs:** Discount rate	Discount rate of 14.70% (Note (vi))
Derivative financial instruments: – Redemption option derivative embedded in the convertible bond 2	–	755	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate, share price volatility	Discount rate of 14.30%; share price volatility of 72.84% (Note (vii))
Derivative financial instruments: – Term extension derivative embedded in the promissory note 1	–	–	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate	Discount rate of 14.30% (Note (i))
Derivative financial instruments: – Term extension derivative embedded in the convertible bond 2	–	811	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate, share price volatility	Discount rate of 14.30%; share price volatility of 72.84% (Note (viii))

Notes:

(i) An increase in the discount rate in isolation would result in a change from liabilities to assets of term extension derivative embedded in the promissory note 1.

(ii) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the promissory note 1.

(iii) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the promissory note 2.

(iv) An increase in the discount rate in isolation would result in an increase in the fair value measurement of term extension derivative embedded in the promissory note 3.

(v) An increase in the discount rate in isolation would not result in any change in the fair value measurement of redemption option derivative embedded in the promissory note 3.

(vi) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the promissory note 4.

5. FINANCIAL INSTRUMENTS (continued)

Fair value estimation (continued)

Notes: (continued)

(vii) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the convertible bond 2.

An increase in the share price volatility in isolation would result in an increase in the fair value measurement of redemption option derivative embedded in the convertible bond 2.

(viii) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of term extension derivative embedded in the convertible bond 2.

An increase in the share price volatility in isolation would result in a decrease in the fair value measurement of term extension derivative embedded in the convertible bond 2.

Please refer to Notes 28 and 29 for the movement of the fair values of the financial assets and financial liabilities included in Level 3 categories.

Capital risk management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group manages the capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years.

The Directors monitor capital using a gearing ratio, which is total debts divided by total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The gearing ratios at the end of the reporting periods are as follows:

	2018 RMB'000	2017 RMB'000
Total debts (Note)	**359,384**	364,084
Total equity	**478,929**	794,079
Gearing ratio	**75.0%**	45.8%

Note:

Total debts comprise bank borrowings, promissory notes and convertible bonds.

6. OPERATING SEGMENT

The board of directors is the Group's chief operating decision makers.

The Group engaged in two operating segments which are sales of paper-based packaging products and development, distribution and operation of mobile gaming products. The chief operating decision makers allocated resources and assessed performance based on the (loss)/profit for the year for the entire business comprehensively.

Segment revenue reported represents revenue generated from external customers. There were no intersegment sales for the year ended 31 December 2018 (2017: Nil).

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

	Paper-based packaging products		Development, distribution and operation of mobile gaming products		Consolidated	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	455,361	678,649	235,389	341,363	690,750	1,020,012
Segment results	(52,803)	43,312	(228,898)	125,653	(281,701)	168,965
Unallocated corporate income					–	3,249
Unallocated corporate expenses					(25,311)	(172,465)
Unallocated finance costs					(29,263)	(28,732)
Loss before tax					(336,275)	(28,983)
Income tax expenses					(9,601)	(21,668)
Loss for the year					(345,876)	(50,651)

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	Paper-based packaging products		Development, distribution and operation of mobile gaming products		Consolidated	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Segment assets	499,187	622,289	399,675	666,598	898,862	1,288,887
Unallocated corporate assets					1,115	22,046
Total assets					899,977	1,310,933
Segment liabilities	86,973	152,930	11,969	40,562	98,942	193,492
Unallocated corporate liabilities					322,106	323,362
Total liabilities					421,048	516,854

6. OPERATING SEGMENT (continued)

Segment revenue and results (continued)

The Company's and some dormant companies' assets are not considered to be segment assets for reporting to the chief operating decision makers as they are managed by the central treasury function.

The Company's and some dormant companies' liabilities are not considered to be segment liabilities for reporting to the chief operating decision makers as they are managed by the central treasury function.

Other segment information

For the year ended 31 December 2018

	Paper-based packaging products RMB'000	Development, distribution and operation of mobile gaming products RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital expenditure	(94,967)	(8,000)	(53)	(103,020)
Depreciation of property, plant and equipment	(16,233)	(121)	(48)	(16,402)
Amortisation of intangible assets	–	(5,166)	–	(5,166)
Impairment loss on goodwill	–	(200,609)	–	(200,609)
Change in fair value of derivative financial instruments	–	–	(8,733)	(8,733)
Financial costs	(3,318)	(171)	(29,262)	(32,751)

For the year ended 31 December 2017

	Paper-based packaging products RMB'000	Development, distribution and operation of mobile gaming products RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital expenditure	(1,875)	(80)	(102)	(2,057)
Depreciation of property, plant and equipment	(14,929)	(166)	(29)	(15,124)
Amortisation of intangible assets	–	(21,010)	–	(21,010)
Change in fair value of derivative financial instruments	–	–	1,860	1,860
Change in fair value of contingent consideration payable	–	–	(143,376)	(143,376)
Financial costs	(4,173)	(128)	(28,732)	(33,033)

During the years ended 31 December 2018 and 2017, all revenue is derived from customers in the PRC.

As at 31 December 2018 and 2017, most of the Group's non-current assets were located in the PRC. Accordingly, no analysis of the Group's result and assets by geographical area is disclosed.

6. OPERATING SEGMENT (continued)

Other segment information (continued)

For the year ended 31 December 2018, included in development, distribution and operation of mobile gaming products segment, approximately RMB17,361,000 (2017: RMB90,680,000) revenue arose from the Group's largest distribution channel. No other single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2018 (2017: Nil).

7. REVENUE

Revenue represents the net amounts received and receivable for goods sold, net of discounts and excludes value-added tax, service fees and commission received and sales of in-game virtual items:

Disaggregation of revenue from customers by major products or services line and timing is as follows:

	2018 RMB'000	2017 RMB'000
Revenue recognised at a point in time:		
Sales of paper-based packaging products	455,361	678,649
Revenue recognised over time:		
Development, distribution and operation of mobile gaming products	235,389	341,363
	690,750	1,020,012

As at 31 December 2018, the aggregate amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is approximately RMB1,310,000 and the Group will recognise this revenue in 2019.

8. OTHER REVENUE

	2018 RMB'000	2017 RMB'000
Sales of residual materials	2,066	2,036
Bank interest income	1,298	2,553
	3,364	4,589

9. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Government subsidies (Note)	1,606	7,323
Sundry income	4	42
	1,610	7,365

Note:

Government subsidies represent the financial subsidies given by the local government to encourage the Group's operation in the PRC. No unfulfilled condition and other contingencies attached to these government subsidies.

10. LOSS BEFORE TAX

	2018 RMB'000	2017 RMB'000
Staff costs:		
Employee benefit expense (including directors' remuneration (Note11)):		
Wages and salaries	66,479	61,163
Retirement benefit schemes contributions	6,922	6,609
	73,401	67,772
Other items:		
Cost of inventories sold	379,202	535,593
Depreciation of property, plant and equipment (Note 16)	16,402	15,124
Auditor's remuneration		
– Audit service	1,097	1,184
– Other service	–	–
Amortisation of prepaid lease payments (Note 17)	60	60
Amortisation of intangible assets (Note 19)	5,166	21,010
Allowance for expected credit loss expenses/impairment loss recognised in respect of financial assets carried at amortised cost	4,693	–
Impairment loss on goodwill (Note 18)	200,609	–
Loss on disposal of property, plant and equipment	2,364	–
Minimum lease payments under operating leases of rented premisses	1,548	803
Research and development costs	16,186	10,806

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2018 RMB'000	2017 RMB'000
Fees	295	304
Other emoluments:		
Salaries, allowances and benefits in kind	7,112	8,709
Retirement benefit schemes contributions	54	60
Total	7,461	9,073

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS (continued)

(b) Directors' emoluments

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement benefit schemes contributions RMB'000	Total remuneration RMB'000
31 December 2018				
Executive Directors				
Mr. Chen Hong Cai (Appointed on 17 January 2018)	–	2,299	17	2,316
Mr. Chen Wei Wei (Resigned on 17 January 2018)	–	54	2	56
Ms. Zheng Li Fang	–	1,965	19	1,984
Mr. Sun Shao Hua	–	2,794	16	2,810
Independent Non-executive Directors				
Mr. Liu Da Jin	84	–	–	84
Mr. Ma Yiu Ho, Peter	127	–	–	127
Mr. Wu Ping	84	–	–	84
	295	7,112	54	7,461

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement benefit schemes contributions RMB'000	Total Remuneration RMB'000
31 December 2017				
Executive Directors				
Mr. Chen Wei Wei	–	1,708	25	1,733
Ms. Zheng Li Fang	–	3,109	19	3,128
Mr. Sun Shao Hua	–	3,892	16	3,908
Independent Non-executive Directors				
Mr. Liu Da Jin	87	–	–	87
Mr. Ma Yiu Ho, Peter	130	–	–	130
Mr. Wu Ping	87	–	–	87
	304	8,709	60	9,073

The Group does not have any chief executive officer during the years.

During the years, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during the years.

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS (continued)

(c) Five highest paid employees

The five highest paid employees of the Group are analysed as follows:

	2018 RMB'000	2017 RMB'000
Directors	7,110	8,769
Non-directors	2,037	1,694
	9,147	10,463

The five highest paid individuals in the Group during both years included 3 (2017: 3) directors; details of whose emoluments are set out in Note 11(b). The emoluments of the remaining 2 (2017: 2) individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	2,016	1,669
Retirement benefit schemes contributions	21	25
	2,037	1,694

The number of these non-directors, being the five highest paid employees whose remuneration fell within the following band is as follows:

	2018	2017
Nil to HK$1,000,000	–	1
HK$1,000,001 to HK$2,000,000	2	1
	2	2

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS (continued)

(c) Five highest paid employees (continued)

Included in the five highest paid employees, the number of senior management (being the non-director employees) whose remuneration fell within the following band is at follows:

	2018	2017
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$2,000,000	2	1
	2	1

Note: The band was denominated in HK$ and the remuneration of the respective employees was translated at the average rate of RMB to HK$ for each year for the disclosure purpose.

During the years, no emoluments were paid by the Group to the non-directors, being the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the non-director, highest paid employees waived or agreed to waive any emoluments during the years.

12. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest expenses on borrowings	6,785	4,301
Imputed interest on promissory notes	23,848	24,011
Imputed interest on convertible bonds	2,118	4,721
	32,751	33,033

13. INCOME TAX EXPENSES

	2018 RMB'000	2017 RMB'000
Current tax		
– The PRC Enterprise Income Tax	7,365	22,071
– Under provision in prior year	2,236	2,553
	9,601	24,624
Deferred tax		
– Current year (Note 32)	–	(2,956)
Total income tax recognised in profit or loss	9,601	21,668

13. INCOME TAX EXPENSES (continued)

For the year ended 31 December 2017, Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profits. On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 ("Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rate regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. No Hong Kong profit tax is provided as the Group does not have any assessable profit from the Group's operation in Hong Kong.

The PRC subsidiary is subject to the PRC Enterprise Income Tax at 25% during the year (2017: 25%). Pursuant to the relevant laws and regulations in the PRC, HongSheng (Jiangxi) Color Printing Packaging Co., Ltd ("HongSheng"), which qualified as a High and New Technology Enterprise ("HNTE") in August 2014, was entitled to a reduced enterprise income tax rate of 15% from 1 January 2014 to 31 December 2016. During the year ended 31 December 2017, HongSheng renewed the qualification of HNTE and entitled to the reduced tax rate of 15% until the year ended 31 December 2019.

During the year ended 31 December 2018, Behill Science Technology Co., Limited was qualified as a HNTE and entitled to a reduced enterprise income tax rate of 15% from 1 January 2018 to 31 December 2020.

The reconciliation between the income tax expenses and accounting (loss)/profit at applicable income tax rates is as follows:

	2018						2017					
	Hong Kong		The PRC		Total		Hong Kong		The PRC		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
(Loss)/profit before tax	(50,379)		(285,896)		(336,275)		(182,393)		153,408		(28,983)	
Tax at applicable income tax rate	(8,313)	16.5	(71,473)	25.00	(79,786)	23.73	(30,095)	16.5	38,352	25.0	8,257	(28.5)
Preferential income tax treatments	–	–	8,109	(2.83)	(8,109)	(2.41)	–	–	(19,062)	(12.4)	(19,062)	65.8
Tax effect of expenses or income not deductible or taxable for tax purpose	–	–	51,195	(17.92)	51,195	(15.23)	–	–	(4,041)	(2.6)	(4,041)	13.7
Under provision in prior year	–	–	2,236	(0.78)	2,236	(0.67)	–	–	2,553	1.7	2,553	(8.8)
Tax effect of tax loss not recognised	8,313	(16.5)	19,534	(6.83)	27,847	(8.28)	30,071	(16.4)	3,890	2.5	33,961	(116.9)
	–	–	9,601	(3.36)	9,601	(2.86)	(24)	(0.1)	21,692	14.2	21,668	(74.7)

14. DIVIDENDS

The board of directors does not recommend payment of a final dividend for the years ended 31 December 2018 and 2017.

On 30 June 2017, a special dividend of HK2.0 cents per share with the aggregate amount of approximately RMB20,023,000 (equivalent to approximately HK$23,062,000) was paid.

15. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

Basic and diluted loss per share

	2018 RMB'000	2017 RMB'000
Loss attributable to the owners of the Company for the purpose of basic loss per share	(345,876)	(50,651)

Number of shares

	2018 '000	2017 '000
Weighted average number of ordinary shares per share	1,361,651	1,210,683

Basic loss per share for the years ended 31 December 2018 and 2017 are calculated by dividing the loss for the year attributable to owners of the Company by the weighted average number of shares in issue during the year.

For the years ended 31 December 2018 and 2017, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds and the effect of exercise the share options since it would result in an anti-dilutive effect on loss per share.

16. PROPERTY, PLANT AND EQUIMENT

	Machinery RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost							
At 1 January 2017	132,129	924	743	65,113	142	4,320	203,371
Additions	23	80	–	–	102	1,852	2,057
Written-off	–	–	–	–	(108)	–	(108)
Transfer from construction-in progress	–	–	–	6,172	–	(6,172)	–
Exchange realignment	–	–	–	–	(11)	–	(11)
At 31 December 2017 and 1 January 2018	132,152	1,004	743	71,285	125	–	205,309
Additions	94,828	175	–	–	17	–	95,020
Disposal	(16,727)	(333)	(355)	–	–	–	(17,415)
Exchange realignment	–	1	–	–	9	–	10
At 31 December 2018	210,253	847	388	71,285	151	–	282,924
Accumulated depreciation							
At 1 January 2017	40,094	555	436	14,431	128	–	55,644
Charge for the year	11,597	182	74	3,264	7	–	15,124
Eliminated on written-off	–	–	–	–	(108)	–	(108)
Exchange realignment	–	–	–	–	(6)	–	(6)
At 31 December 2017 and 1 January 2018	51,691	737	510	17,695	21	–	70,654
Charge for the year	12,749	153	72	3,386	42	–	16,402
Eliminated on disposal	(12,261)	(316)	(337)	–	–	–	(12,914)
Exchange realignment	–	–	–	–	3	–	3
At 31 December 2018	52,179	574	245	21,081	66	–	74,145
Carrying amount							
At 31 December 2018	**158,074**	**273**	**143**	**50,204**	**85**	**–**	**208,779**
At 31 December 2017	80,461	267	233	53,590	104	–	134,655

Assets pledged as security

As at 31 December 2018, machinery with a carrying amount of approximately RMB31,795,000 (2017: RMB36,667,000) have been pledged to secure bank borrowings (Note 27) granted to the Group.

As at 31 December 2018, buildings with a carrying amount of approximately RMB44,314,000 (2017: RMB47,338,000) have been pledged to secure bank borrowings (Note 27) granted to the Group.

17. PREPAID LEASE PAYMENTS

Prepaid lease payments represent prepayment by the Group for the land use rights located in the PRC which are held on leases for 50 years.

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes as:		
Current assets (included in prepayments) (Note 23)	60	60
Non-current assets	2,135	2,195
	2,195	2,255

Amortisation on prepaid lease payments of approximately RMB60,000 (2017: RMB60,000) have been charged to the administrative expenses in profit or loss for the year.

As at 31 December 2018, prepaid lease payments with a carrying amount of approximately RMB2,195,000 (2017: RMB2,255,000) have been pledged to secure bank borrowings (Note 27) granted to the Group.

18. GOODWILL

	RMB'000
Cost	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 (Note)	429,857
Accumulated impairment	
At 1 January 2017, 31 December 2017 and 1 January 2018	–
Impairment loss recognised for the year	200,609
At 31 December 2018	200,609
Carrying amount	
At 31 December 2018	229,248
At 31 December 2017	429,857

Note: Goodwill amounted to approximately RMB429,857,000 were arisen from the acquisition of Cable King Group during the year ended 31 December 2016 which are allocated to cash generating unit of development, distribution and operation of mobile gaming products business segment ("CGU").

18. GOODWILL (continued)

The recoverable amount of Cable King Group as at 31 December 2018 and 2017 has been determined based on value in use calculation. Such calculation is based on (1) profit forecast prepared by Cable King Group's management covering a five year period and (2) a discount rate of 23.94% (2017: 24.24%) per annum which reflects current market assessment of the time value of money and the credit risk specific to the cash-generating unit. The cash flows beyond five year period are extrapolated using a steady 3% (2017: 3%) growth rate. This growth rate is based on the relevant industry growth forecast and does not exceed the long term average growth rate for the relevant industry. Other key assumptions for the value in use calculations are related to the estimation of cash inflows/outflows which include budgeted sales with a compound average growth rate of 3% and stable gross margin, such estimation is based on the CGU's past performance and its management's expectations for the market development.

During the year ended 31 December 2018, the gaming industry in China has been significantly disrupted by a new policy that was implemented in March 2018, resulting in a sudden halt in the licensing of new games. Although the industry regulator re-started issuing game monetisation license ("banhao") approvals in December 2018, the slowdown of approvals delayed the Cable King Group development over gaming industry and the Cable King Group's future development plan. Since there is a sizeable backlog for the banhao applications in the industry, the scheduled game releases will initially be slower than prior years and there is no reliable timetable to estimate the timing for resumption of issuing the banhao as pervious period. As a result of the adverse change above, the management of the Company prepared the forecast based on revenue of the Cable King Group for the year ended 31 December 2018, existing market condition and foreseeable future development of gaming industry. The management believe the forecast reflect their best knowledge of the Cable King Group. Other than the aforesaid revision, key assumptions and valuation method have no material change for the value-in-use calculation at previous valuation. The management believes that any adverse change in any of these assumptions used in calculation of its recoverable amount would result in future losses.

Based on the valuation report issued by an independent professional valuer, the carrying amount of the CGU exceeds its recoverable amount and an impairment loss of approximately of RMB200,609,000 (2017: Nil) was provided during the year.

19. INTANGIBLE ASSETS

	Game Intellectual Properties and Licences RMB'000	Online Platform RMB'000	Total RMB'000
Cost			
At 1 January 2017	46,886	260	47,146
Addition	8,467	–	8,467
At 31 December 2017 and 1 January 2018	55,353	260	55,613
Addition	13,693	–	13,693
At 31 December 2018	69,046	260	69,306
Accumulated amortisation			
At 1 January 2017	(27,761)	(177)	(27,438)
Charge of the year	(20,927)	(83)	(21,010)
At 31 December 2017 and 1 January 2018	(48,188)	(260)	(48,448)
Charge of the year	(5,166)	–	(5,166)
At 31 December 2018	(53,354)	(260)	(53,614)
Carrying amount			
At 31 December 2018	**15,692**	**–**	**15,692**
At 31 December 2017	7,165	–	7,165

20. LONG-TERM PREPAYMENT

Long-term prepayment represents the expenditure incurred on developing new gaming products but not yet met the recognition requirements of intangible asset.

21. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**39,759**	23,315
Work in progress	**1,629**	4,666
Finished goods	**865**	2,027
	42,253	30,008

22. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	61,754	140,539
Less: Allowance for credit losses	(105)	–
	61,649	140,539

The following is an analysis of trade receivables by age, presented based on the invoice date. The analysis below is net of allowance for doubtful debts:

	2018 RMB'000	2017 RMB'000
0 – 30 days	26,465	63,933
31 – 60 days	26,607	54,834
61 – 90 days	8,577	21,772
	61,649	140,539

The average credit period on sales of goods is from 30 to 90 days. In determining the recoverability of the trade receivables, the Group consider any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Allowances for doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. The Directors of the Company considered no provision for impairment is recognised during the year (2017: Nil) as these customers had no recent history of default.

The Group does not hold any collateral or other credit enhancement over these balances.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. As at 31 December 2018, no trade receivables was due from the Group's largest customer (2017: RMB3,537,000). No customer represent more than 5% of the total balance of trade receivables for both years and hence the concentration of credit risk is limited.

As at 31 December 2018, no trade receivables were past due but not impaired (2017: Nil).

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepaid lease payments (Note 17)	60	60
Prepayments, deposits and other receivables (Note)	69,131	75,717
	69,191	75,777

Note: The amounts mainly represented the prepayments of commission charges to game distribution channels and advertising expenses.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 RMB'000	2017 RMB'000
Assets		
Term extension derivative embedded in Promissory Note 3 (Note 28)	–	2,427
Redemption option derivative embedded in Promissory Notes (Note 28)	–	6,208
Redemption option derivative embedded in Convertible Bonds (Note 29)	–	961
	–	9,596
Liability		
Term extension derivative embedded in Convertible Bonds (Note 29)	–	811

Redemption option derivative

Pursuant to the agreement in relation to issuance of the Convertible Bonds and Promissory Notes, redemption options are held by the Company. The Company may at any time from the date of issue of the Convertible Bonds and Promissory Notes up to the date immediately before the maturity date of the Convertible Bonds and Promissory Notes redeem the Convertible Bonds and Promissory Notes at amounts as described in Notes 29 and 28 respectively.

Term extension derivative

Pursuant to the agreement in relation to issue of Convertible Bonds and Promissory Notes, the Company may extend its Convertible Bonds and Promissory Notes (in whole or in part) for further one year from last day of the term or if applicable extend for a further one year, if (i) the Company's earnings before income tax, depreciation and amortisation for the financial year from the date of issue of the Convertible Bonds and Promissory Notes is not less than RMB52,000,000; and (ii) the consolidated net assets value of the Group is not less than RMB220,000,000. The holder of Convertible Bonds and Promissory Notes may only make up to two extensions and the aggregate extended term for the above extensions shall not exceed two years.

24. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Term extension derivative (continued)

The derivative financial instruments are initial measured at fair value with changes in fair value recognised in profit or loss. For details of the movement and key inputs used for calculation of derivative financial instruments, please refer to Notes 5, 28 and 29.

25. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

Pledged bank deposits represent deposits pledged to banks to secure bills payable granted to the Group. The pledged bank deposits have been released upon the settlement of relevant bills payable during the year ended 31 December 2018 (Note 26).

Included in the cash and bank balances as at 31 December 2018, amount of approximately RMB266,225,000 (2017: RMB447,754,000) are subject to the foreign exchange control restrictions imposed by the government of the PRC.

Bank balances carry interest at market rates which range from 0.30% to 0.35% per annum for the year ended 31 December 2018 (2017: 0.30% to 0.35% per annum).

26. TRADE, BILLS, OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Trade payables	31,512	77,381
Bill payable	–	24,000
Accruals	27,920	29,928
Other payables	922	1,255
	60,354	132,564

An aged analysis of the trade payables, based on invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
0 – 30 days	15,785	45,571
31 – 60 days	15,727	31,502
61 – 90 days	–	308
	31,512	77,381

The average credit period on purchases of certain goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

As at 31 December 2018, the bills payable of approximately RMBNil (2017: RMB24,000,000) was pledged by the bank deposits (Note 25).

27. BORROWINGS

	2018 RMB'000	2017 RMB'000
Secured bank borrowings – repayable within one year	51,000	53,000
Non-secured other borrowings – repayable within one year	41,797	–
	92,797	53,000

All the bank borrowings were denominated in RMB. As at 31 December 2018 and 2017, the bank borrowings were secured by certain property, plant and equipment and prepaid lease payments held by the Group as set out in Notes 16 and 17 respectively.

The ranges of effective interest rates (which are equal to the contracted interest rates) on borrowings are as follows:

	2018	2017
Fixed rate – bank borrowings	5.7% to 7.7%	4.6% to 7.7%
Fixed rate – other borrowings	18.0%	–

28. PROMISSORY NOTES

The promissory notes issued have been split as to the derivative financial assets component (term extension derivative component and redemption option derivative component embedded in promissory notes) and the financial liability component (promissory notes liabilities). The following tables summarise the movements of derivative financial assets and financial liability components during the years ended 31 December 2018 and 2017.

Derivative financial assets/(liabilities) – Term extension derivative component:

	Promissory Note 1 RMB'000	Promissory Note 3 RMB'000	Total RMB'000
At 1 January 2017	(99)	705	606
Change in fair value	96	1,844	1,940
Exchange realignment	3	(122)	(119)
At 31 December 2017 and 1 January 2018	–	2,427	2,427
Change in fair value	–	(2,460)	(2,460)
Exchange realignment	–	33	33
At 31 December 2018	–	–	–

28. PROMISSORY NOTES (continued)

Derivative financial assets – Redemption option derivative component:

	Promissory Note 1 RMB'000	Promissory Note 2 RMB'000	Promissory Note 3 RMB'000	Promissory Note 4 RMB'000	Total RMB'000
At 1 January 2017	142	189	–	–	331
Change in fair value	787	1,793	3,561	1	6,142
Exchange realignment	(41)	(83)	(141)	–	(265)
At 31 December 2017 and 1 January 2018	888	1,899	3,420	1	6,208
Change in fair value	(900)	(1,924)	(3,466)	(1)	(6,291)
Exchange realignment	12	25	46	–	83
At 31 December 2018	**–**	**–**	**–**	**–**	**–**

Financial liability component – Promissory notes liabilities:

	2018 RMB'000	2017 RMB'000
Current portion	**258,434**	166,563
Non-current portion	**–**	127,599
	258,434	294,162

	Promissory Note 1 RMB'000	Promissory Note 2 RMB'000	Promissory Note 3 RMB'000	Promissory Note 4 RMB'000	Total RMB'000
At 1 January 2017	71,617	60,342	107,187	–	239,146
Issue of promissory note	–	–	–	72,217	72,217
Imputed interest charged	5,880	6,370	9,072	2,689	24,011
Coupon interest payable	(5,880)	(5,462)	(8,843)	(1,419)	(21,604)
Exchange realignment	(4,992)	(4,241)	(7,478)	(2,897)	(19,608)
At 31 December 2017 and 1 January 2018	66,625	57,009	99,938	70,590	294,162
Early redemption of promissory note	(33,757)	(19,832)	–	–	(53,589)
Loss on early redemption of promissory note	–	348	–	–	348
Imputed interest charged	4,581	4,796	8,608	5,863	23,848
Coupon interest payable	(4,581)	(4,055)	(8,608)	(3,038)	(20,282)
Exchange realignment	2,251	2,336	5,419	3,941	13,947
At 31 December 2018	**35,119**	**40,602**	**105,357**	**77,356**	**258,434**

28. PROMISSORY NOTES (continued)

Promissory Note 1

On 19 June 2015, the Company issued a redeemable 7.5% promissory note with the principal amount of HK$80,000,000 and interest payable half yearly (the "Promissory Note 1").

The Promissory Note 1 has a term of one year and the holder shall extend the Promissory Note 1 on the same terms and conditions of the Promissory Note 1 for a further period of one year (the "Extend Term of the Promissory Note 1") provided that the Group's earnings before interest, taxes, depreciation and amortisation ("EBITDA") for the financial year before the end of the term is not less that RMB52,000,000 and the consolidated net asset value of the Group is not less than RMB220,000,000, provided that the noteholder of Promissory Note 1 may only make up to two extensions and the aggregate extended term for the above extensions shall not exceed two years.

The Company may, prior to the maturity date of the Promissory Note 1 from and including the date falling 12 months from the date of issue redeem the outstanding principal amount of the Promissory Note 1, with all amounts of accrued interests, handling fee and all other outstanding amount payable by the Company to the holder of the Promissory Note 1, and without penalty.

The Promissory Note 1 has the benefit of the security constituted by the share charges created by Rich Kirin Holdings Limited and Big Wealth Limited; the guarantee of Mr. Sun Shao Hua, a Director and a controlling shareholder of the Company; and the guarantee of Novel Blaze Limited, the ultimate holding company of the Company.

The Promissory Note 1 contains three components: term extension derivative component, redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 1 at the date of issue was estimated to be approximately RMB64,534,000 based on the effective interest rate of 6.3% per annum. The term extension derivative component and redemption option derivative component are measured at fair value with changes in fair value recognised in profit or loss.

On 19 June 2016, the maturity date of Promissory Note 1 extended to 19 June 2017. As a result, the effective interest rate of Promissory Note 1 changed to 8.5%.

On 19 June 2017, the maturity date of Promissory Note 1 was further extended to 19 June 2018. The effective interest rate of Promissory Note 1 remained unchanged.

On 20 June 2018, the Promissory Note 1 with principal amount of HK$40,000,000 was early redeemed. The remaining amount of HK$40,000,000 was further extended to 19 June 2019. The effective interest rate of Promissory Note 1 changed to 10.5%.

Promissory Note 2

On 28 April 2016, the Company issued a redeemable 9% promissory note with the principal amount of HK$200,000,000 and interest payable yearly (the "Promissory Note 2").

The Promissory Note 2 has a term of three years. The Company may, at any time prior to the maturity date of the Promissory Note 2, redeem the outstanding principal amount of the Promissory Note 2, with all amounts of accrued interests and all other outstanding amount payable by the Company to the holder of the Promissory Note 2.

28. PROMISSORY NOTES (continued)

Promissory Note 2 (continued)

The Promissory Note 2 contains two components: redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 2 at the date of issue was estimated to be approximately RMB159,859,000 based on the effective interest rate of 10.9% per annum. The redemption option derivative component is measured at fair value with changes in fair value recognised in profit or loss.

During the year ended 31 December 2016, the Promissory Note 2 with principal amount of HK$130,000,000 was early redeemed. The excess of the fair value of the consideration to settle the Promissory Note 2 over (i) the carrying value of the financial liability component; and (ii) fair value of early redemption component of the redeemed portion of the Promissory Note 2 of approximately RMB5,112,000 was recognised by the Group as a loss on early redemption of promissory note and debited to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

On 18 April 2018, the Promissory Note 2 with principal amount of HK$23,500,000 was early redeemed. The excess of the fair value of the consideration to settle the Promissory Note 2 over (i) the carrying value of the financial liability component; and (ii) fair value of early redemption component of the redeemed portion of the Promissory Note 2 of approximately RMB348,000 was recognised by the Group as loss on early redemption of promissory note and debited to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

Promissory Note 3

On 20 May 2016, the Company issued a redeemable 8.5% promissory note with the principal amount of HK$120,000,000 and interest payable yearly (the "Promissory Note 3").

The Promissory Note 3 has a term of one year and the holder shall extend the Promissory Note 3 on the same terms and conditions of the Promissory Note 3 for a further period of one year (the "Extended Term of the Promissory Note 3") provided that the Group's EBITDA for the financial year before the end of the term is not less than RMB68,196,000 and the consolidated net asset value of the Group is not less than RMB296,892,000 provided that the noteholder of Promissory Note 3 may only make up to two extensions and the aggregate extended term for the above extensions shall not exceed two years.

The Promissory Note 3 contains three components: the extension derivative component, redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 3 at the date of issue was estimated to be approximately RMB100,015,000 based on the effective interest rate of 9.1% per annum. The term extension derivative component and redemption option derivative component are measured at fair value with changes in fair value recognised in profit or loss.

On 20 May 2017, the maturity date of Promissory Note 3 extended to 20 May 2018. As a result, the effective interest rate of Promissory Note 3 changed to 8.5%.

On 20 May 2018, the maturity date of Promissory Note 3 was extended to 20 May 2019. The effective interest rate of Promissory Note 3 remained unchanged.

28. PROMISSORY NOTES (continued)

Promissory Note 4

On 19 July 2017, the Company issued a redeemable 4% promissory note with the principal amount of HK$90,000,000 and interest payable yearly (the "Promissory Note 4").

The Promissory Note 4 has a term of two years. The Company may, at any time prior to the maturity date of the Promissory Note 4, redeem the outstanding principal amount of the Promissory Note 4, with all amounts of accrued interests and all other outstanding amount payable by the Company to the holder of the Promissory Note 4.

The Promissory Note 4 contains two components: redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 4 at the date of issue was estimated to be approximately RMB70,590,000 based on the effective interest rate of 8.2% per annum. The redemption option derivative component is measured at fair value with changes in fair value recognised in profit or loss.

29. CONVERTIBLE BONDS

The convertible bonds issued have been split as to the derivative financial asset component (redemption option derivative component embedded in convertible bonds); the derivative financial liability component (term extension derivative component embedded in convertible bonds); the financial liability component (convertible bonds) and equity component (convertible bonds reserve). The following tables summarise the movements of the derivative financial assets; derivative financial liabilities; financial liabilities and equity component during the years ended 31 December 2018 and 2017.

Derivative financial assets – Redemption option derivative component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 1 January 2017	7,857	4,052	11,909
Conversion of convertible bonds	(1,278)	(429)	(1,707)
Change in fair value	(6,116)	(2,710)	(8,826)
Exchange realignment	(257)	(158)	(415)
At 31 December 2017 and 1 January 2018	206	755	961
Conversion of convertible bonds	(169)	–	(169)
Change in fair value	(39)	(765)	(804)
Exchange realignment	2	10	12
At 31 December 2018	–	–	–

29. CONVERTIBLE BONDS (continued)

Derivative financial liabilities – Term extension derivative component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 1 January 2017	2,330	1,848	4,178
Conversion of convertible bonds	–	(597)	(597)
Change in fair value	(2,256)	(348)	(2,604)
Exchange realignment	(74)	(92)	(166)
At 31 December 2017 and 1 January 2018	–	811	811
Change in fair value	–	(822)	(822)
Exchange realignment	–	11	11
At 31 December 2018	**–**	**–**	**–**

Financial liabilities – Financial liability component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 1 January 2017	22,719	10,149	32,868
Conversion of convertible bonds	(13,746)	(3,310)	(17,056)
Imputed interest charged	3,498	1,223	4,721
Coupon interest payable	(1,323)	(558)	(1,881)
Exchange realignment	(1,127)	(603)	(1,730)
At 31 December 2017 and 1 January 2018	10,021	6,901	16,922
Conversion of convertible bonds	(10,655)	–	(10,655)
Imputed interest charged	796	1,322	2,118
Coupon interest payable	(296)	(478)	(774)
Exchange realignment	134	408	542
At 31 December 2018	**–**	**8,153**	**8,153**

29. CONVERTIBLE BONDS (continued)

Equity component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 1 January 2017	4,067	639	4,706
Conversion of convertible bonds	(2,372)	(213)	(2,585)
At 31 December 2017 and 1 January 2018	1,695	426	2,121
Conversion of convertible bonds	(1,695)	–	(1,695)
At 31 December 2018	**–**	**426**	**426**

Convertible Bond 1

On 19 June 2015, the Company issued redeemable 7.5% convertible bonds with aggregate principal amount of HK$20,000,000 with handling fee charging at 1% per annum and interest payable half yearly ("Convertible Bond 1"). The Convertible Bond 1 entitles the holder to convert to ordinary shares of the Company at a conversion price of HK$0.85 per share and will be converted into 23,529,411 shares assuming full conversion.

Conversion may occur at any time during the term of the Convertible Bond 1.

The Convertible Bond 1 has a term of one year and the holder shall extend the Convertible Bond 1 on the same terms and conditions of the Convertible Bond 1 for a further period of one year (the "Extended Term of the Convertible Bond 1") provided that the Group's EBITDA for the financial year before the end of the term is not less than RMB52,000,000 and the consolidated net asset value of the Group is not less than RMB220,000,000 ("Condition 1"), provided that the holder of Convertible Bond 1 may only make up to two extensions under Condition 1 and the aggregate extended term for the above extensions shall not exceed two years.

Subject to the Promissory Note 1 (Note 28) having been redeemed in full, the Company has the right to redeem all (but not part of) the outstanding principal amount of the Convertible Bond 1 at any time during the period between the first day of the twelfth month following the date of issue of the Convertible Bond 1 and the last day immediately preceding the maturity date of the Convertible Bond 1.

Unless previously redeemed, converted, purchased and cancelled, the Company shall pay on the maturity date an aggregate price of (i) the outstanding principal amount of the Convertible Bond 1 on the maturity date, (ii) 12 % of the outstanding principal amount on the maturity date of the Convertible Bond 1 (exclusive of interest) multiplied by the term or the Extended Term of the Convertible Bond 1 expressed in years for the redemption of the portion of the Convertible Bond 1 which has not been converted into Shares, (iii) all accrued and unpaid interest and handling fee and unpaid default interest accrued in respect of such outstanding principal amount of the Convertible Bond 1 to be redeemed, and (iv) all other outstanding amounts payable by the Company to the holder of the Convertible Bond 1.

29. CONVERTIBLE BONDS (continued)

Convertible Bond 1 (continued)

The Convertible Bond 1 has the benefit of the security constituted by the share charges created by Rich Kirin Holdings Limited and Big Wealth Limited; the guarantee of Mr. Sun Shao Hua, a Director of the Company; and the guarantee of Novel Blaze Limited, the ultimate holding company of the Company.

The Convertible Bond 1 contains four components: redemption option derivative component, term extension derivative component, financial liability component and equity component. The equity component is presented in equity heading "convertible bonds reserve". The financial liability component is initially recognised at fair value and carried at amortised cost using effective interest rate. The effective interest rate of the financial liability component on initial recognition is 11.8% per annum. The redemption option derivative component and term extension derivative component are measured at fair value with changes in fair value recognised in profit or loss.

On 10 September 2015, the Group entered into supplementary deeds, agreed to amend the provisions of the Company's early redemption right under the Convertible Bond 1 ("Modification"). The amended term is unless previously redeemed, converted, purchased and cancelled, the redemption price payable by the Company for early redemption of the Convertible Bond 1 shall be the amount equivalent to the sum of (i) the outstanding principal amount of the Convertible Bond 1 to be redeemed, (ii) return of 17.5% per annum on the outstanding principal amount of the Convertible Bond 1 from the issue date to the date of full payment of the redemption price by the Company with such return calculated on the basis of the actual number of days elapsed in a year of 365 days (exclusive of interest) for the redemption of the portion of the Convertible Bond 1 which has not been converted into Shares, (iii) all accrued and unpaid interest, (iv) all accrued and unpaid handling fee, and (v) all other outstanding amounts payable by the Company to the bondholder.

The effective interest rate after 10 September 2015 is 14.31%.

In valuing the derivative components the Black-Scholes with Trinomial Tree method were used.

The key inputs used for calculation of the fair value of the derivative financial assets component were as follow:

	At 19 June 2015	At 10 September 2015
Time to maturity	1 to 3 years	0.77 to 2.77 years
	(depends on extension condition)	
Share price	HK$0.87	HK$0.84
Share price volatility	62.22% to 70.47%	64.28% to 85.09%
Earning volatility	64.93% to 70.47%	69.04% to 85.09%
Earning growth rate	44.97%	47.58%
Conversion price	HK$0.85	HK$0.85
Discount rate	12.78% to 13.46%	14.69% to 15.37%

29. CONVERTIBLE BONDS (continued)

Convertible Bond 1 (continued)

Details of Convertible Bond 1 on initial recognition or Modification to be approximately as follows:

	At 19 June 2015 RMB'000	At 10 September 2015 RMB'000
Liability component	15,320	17,602
Equity component	915	4,067
Redemption option derivative component	(155)	(149)
Term extension derivative component	(663)	1,755
	15,417	23,275

On 19 June 2016, the maturity date of Convertible Bond 1 extended to 19 June 2017. As a result, the effective interest rate of Convertible Bond 1 changed to 23.4%.

On 10 April 2017, Convertible Bond 1 was partly converted into 7,843,136 ordinary shares of the Company.

On 19 June 2017, the maturity date of Convertible Bond 1 was further extended to 19 June 2018. As a result, the effective interest rate of Convertible Bond 1 changed to 21.5%.

On 3 November 2017, Convertible Bond 1 was partly converted into 5,882,532 ordinary shares of the Company.

On 14 May 2018, the remaining Convertible Bond 1 was converted into 9,803,922 ordinary shares of the Company.

Convertible Bond 2

On 20 May 2016, the Company issued redeemable 7.5% convertible bonds with aggregate principal amount of HK$30,000,000 with handling fee charging at 1% per annum and interest payable half yearly ("Convertible Bond 2"). The Convertible Bond 2 entitle the holder to convert to ordinary shares of the Company at a conversion price of HK$0.75 per share and will be converted into 40,000,000 shares assuming full conversion.

Conversion may occur at any time during the term of the Convertible Bond 2.

The Convertible Bond 2 have a term of one year and the holder shall extend the Convertible Bond 2 on the same terms and conditions of the Convertible Bond 2 for a further period of one year (the "Extended Term of the Convertible Bond 2") provided that the Group's EBITDA for the financial year before the end of the term is not less than RMB68,196,000 and the consolidated net asset value of the Group is not less than RMB296,892,000 ("Condition 2"), provided that the holder of Convertible Bond 2 may only make up to two extensions under Condition 2 and the aggregate extended term for the above extensions shall not exceed two years.

29. CONVERTIBLE BONDS (continued)

Convertible Bond 2 (continued)

Subject to the Promissory Note 3 (Note 28) having been redeemed in full, the Company has the right to redeem all (but not part of) the outstanding principal amount of the Convertible Bond 2 at any time during the period between the first day of the sixth month following the date of issue of the Convertible Bond 2 and the last day immediately preceding the maturity date of the Convertible Bond 2.

Unless previously redeemed, converted, purchased and cancelled, the redemption price payable by the Company for early redemption of the Convertible Bond 2 shall be the amount equivalent to the sum of (i) the outstanding principal amount of the Convertible Bond 2 to be redeemed, (ii) return of 15%per annum on the outstanding principal amount of the Convertible Bond 2 from the issue date to the date of full payment of the redemption price by the Company with such return calculated on the basis of the actual number of days elapsed in a year of 365 days (exclusive of interest) for the redemption of the portion of the Convertible Bond 2 which has not been converted into Shares, (iii) all accrued and unpaid interest, (iv) all accrued and unpaid handling fee, and (v) all other outstanding amounts payable by the Company to the bondholder.

The Convertible Bond 2 has the benefit of the security constituted by the share charges created by the Company, Cable King Limited, Wealthy Top (China) Limited and Novel Blaze Limited, the ultimate holding company of the Company; the guarantee Mr. Sun Shao Hua, a Director and a controlling shareholder of the Company; and Ms. Zheng Xue Xia, a controlling shareholder of the Company and the souse of Mr. Sun Shao Hua.

The effective interest rate at issue of Convertible Bond 2 is 11.6%.

In valuing the derivative components the Black-Scholes model with Trinomial Tree method was used.

The key inputs used for calculation of the fair value of the derivative financial assets component were as follow:

	At 20 May 2016
Time to maturity	3 years
Share price	HK$0.71
Share price volatility	55.45%
Price-to-EBITDA ratio	5.67
Conversion price	HK$0.75
Discount rate	10.03%

On 12 August 2016, Convertible Bond 2 was partly converted into 26,666,666 ordinary shares of the Company.

On 10 April 2017, Convertible Note 2 was partly converted into 4,444,443 ordinary shares of the Company.

On 20 May 2017, the maturity date of Convertible Bond 2 extended to 20 May 2018. As a result, the effective interest rate of Convertible Bond 2 changed to 20.4%.

On 20 May 2018, the maturity date of Convertible Bond 2 was extended to 20 May 2019. As a result, the effective interest rate of Convertible Bond 2 changed to 18.1%.

30. CONTINGENT CONSIDERATION PAYABLE

The contingent consideration payable is denominated in HK$.

The contingent consideration payable was arising from the acquisition of Cable King Group on 27 April 2016.

On 27 April 2016, based on the directors' best estimation with reference to the valuation report provided by a professional valuer, payable of approximately RMB94,766,000 (equivalent to approximately HK$113,046,000) was recognised at fair value.

As at 31 December 2016, the Company refer to actual profit of the Cable King Group and valuation report provided by an independent external valuer, estimate the fair value of contingent consideration payable to be RMB155,568,000 (equivalents to approximately HK$173,706,000). As a result, a fair value loss of approximately RMB51,963,000 (equivalents to approximately HK$60,660,000) was recognised in the consolidated statement of profit or loss.

For the year ended 31 December 2017, the change in fair value of contingent consideration payable of approximately RMB143,376,000 (equivalents to approximately HK$165,372,000) was arisen from settlement of contingent consideration payable by way of issue of the Promissory Note 4 with principal amount of HK$90,000,000 (Note 28) and issue of 128,571,429 ordinary shares at issue price of HK1.99 each (Note 33(a)).

31. DEFERRED REVENUE/CONTRACT LIABILITIES

	2018 RMB'000	2017 RMB'000
Deferred revenue		
Service fee received but related service not rendered (Note)	–	16,362

Note:

As at 31 December 2017, deferred revenue comprised receipt from sale of virtual currency through their online and mobile game that is being recognised through profit and loss over the average estimated paying player life.

	2018 RMB'000	2017 RMB'000
Contract liabilities		
Reclassified under initial application of HKFRS 15 on 1 January 2018 (Note)	1,310	–

Note:

As at 31 December 2018, contract liabilities comprised receipt from sale of virtual currency through their online and mobile game that is being recognised through profit or loss over the estimated paying player life.

Contract liabilities was reclassified from deferred revenue upon the initial recognition of HKFRS 15 at 1 January 2018 (see Note 2).

31. DEFERRED REVENUE/CONTRACT LIABILITIES (continued)

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Sale of virtual currency of online and mobile games RMB'000
Revenue recognised from performance obligations satisfied in prior periods:	
Incomes from sales of virtual currency of mobile and web game, not previously recognised due to the constraint	16,362

32. DEFERRED TAXATION

	Intangible asset RMB'000	Convertible bond RMB'000	Total RMB'000
At 1 January 2017	2,956	24	2,980
Credit to profit or loss (Note 13)	(2,956)	–	(2,956)
Exchange realignment	–	(24)	(24)
At 31 December 2017, 1 January 2018 and 31 December 2018	–	–	–

At the end of the reporting period, the Group has no unused tax losses (2017: Nil) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams, as it is not probable that taxable profits will be available against which the cumulative tax losses can be utilised.

33. SHARE CAPITAL AND SHARE OPTION SCHEME

(a) Share capital

	Number of shares '000	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.01 each	8,000,000	80,000

	Number of shares	Share capital	
	'000	HK$'000	RMB'000
At 1 January 2017	1,140,953	11,410	9,150
Issue of share			
– Share options exercised (Note (i))	40,000	400	338
– Issue of shares (Note (ii))	128,571	1,286	1,112
– Conversion of convertible bonds (Note (iii))	18,170	182	160
At 31 December 2017 and 1 January 2018	1,327,694	13,278	10,760
Issue of share			
– Share options exercised (Note (iv))	40,000	400	322
– Conversion of convertible bonds (Note (v))	9,804	98	79
At 31 December 2018	**1,377,498**	**13,776**	**11,161**

Notes:

(i) On 17 December 2017, 40,000,000 ordinary shares were issued in relation to exercise of share options.

(ii) On 19 July 2017, 128,271,429 ordinary shares were issued to settle the contingent consideration payable (Note 30).

(iii) On 10 April 2017 and 3 November 2017, the holder of Convertible Bond 1 and Convertible Bond 2 exercised the conversion right and the entire convertible bond was converted into 18,169,931 ordinary shares of the Company of HK$0.01 each. The conversion shares rank pari passu in all respects with the shares of the Company.

(iv) On 23 April 2018, 40,000,000 ordinary shares were issued in relation to exercise of share options.

(v) On 14 May 2018, the holder of Convertible Bond 1 exercised the conversion right and the entire convertible bond was converted into 9,803,622 ordinary shares of the Company of HK$0.01 each. The conversion shares rank pari passu in all respects with the shares of the Company.

The aggregate net proceeds received by the Company from the global offering amounted to approximately HK$73.1 million (equivalent to approximately RM57.7 million) after deducting underwriting commissions and all related expenses. The Company was intended to use the net proceeds for (i) setting up new production lines; (ii) enhancing the research and development capabilities; (iii) construction of new production block; and (iv) general working capital.

33. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

(b) Reserves

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity.

(i) Share option reserve

The share option reserve relates to share options granted to Directors and employees under the Company's share option scheme. Items included in share option reserve will not be reclassified subsequently to profit or loss.

(ii) Convertible bonds reserve

The amount represented the equity component of the convertible bonds issued.

(iii) Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiary established in the PRC are required to provide for PRC statutory reserve, by way of transfer 10% of the profit after taxation to the statutory reserve until such reserve reaches 50% of the registered capital of the PRC subsidiary. Subject to the certain restrictions set out in the Company Law of the PRC, part of the statutory reserve may converted to increase paid-up capital/issued capital of the PRC subsidiary, provided that the remaining balance after capitalisation is not less than 25% of the registered capital. The statutory reserve of the PRC subsidiary was RMB49,850,000 as at 31 December 2018 (2017: RMB49,850,000).

(iv) Other reserve

Other reserve represented the difference between the Group's shares of normal value of the paid-up capital of the subsidiary acquired over the Group's cost of acquisition of the subsidiary under common control upon reorganisation.

(v) Exchange reserve

Exchange reserve comprise all foreign exchange difference arising from the translation of the financial statements of operations that have functional currency other than RMB which are dealt with in accordance with the accounting policies as set out in Note 3.

33. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

(c) Statement of changes in equity of the Company

	Share premium RMB'000	Share option reserve RMB'000	Convertible bonds reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	301,583	22,594	4,706	20,376	(120,636)	228,623
Loss of the year	–	–	–	–	(182,368)	(182,368)
Other comprehensive loss for the year	–	–	–	(18,290)	–	(18,290)
Total comprehensive loss for the year	–	–	–	(18,290)	(182,368)	(200,658)
Dividend paid (Note 14)	(20,023)	–	–	–	–	(20,023)
Issue of ordinary shares upon conversion of convertible bonds	18,903	–	(2,585)	–	–	16,318
Allotment of shares	220,197	–	–	–	–	220,197
Exercise of share options	29,927	(8,276)	–	–	–	21,651
At 31 December 2017 and 1 January 2018	550,587	14,318	2,121	2,086	(303,004)	266,108
Loss of the year	–	–	–	–	(176,295)	(176,295)
Other comprehensive income for the year	–	–	–	11,954	–	11,954
Total comprehensive loss for the year	–	–	–	11,954	(176,295)	(164,341)
Issue of ordinary shares upon conversion of convertible bonds	11,596	–	(1,695)	–	–	9,901
Exercise of share options	49,103	(14,318)	–	–	–	34,785
At 31 December 2018	**611,286**	**–**	**426**	**14,040**	**(479,299)**	**146,453**

33. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

(d) Share option scheme

The Company operates a share option scheme ("the Scheme") for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. Eligible participants of the Scheme included any full-time or part-time employee of the Company or any member of the Group, including any executive directors, non-executive directors and independent non-executive directors, advisors, consultants of the Group. The Scheme was valid and effective on 13 January 2014 and, unless otherwise altered or terminated, will remain in full force for a period of ten years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme must not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme (the "Scheme Mandate Limit"). Subject to the approval of shareholders in general meeting, the Company may refresh the Scheme Mandate Limit to the extent that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme under the Scheme Mandate Limit as refreshed must not exceed 10% of the shares in issue as at the date of such shareholders' approval.

In addition, the maximum number of shares in respect of which share options may be granted to any eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any future grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The subscription price for the shares subject to options will be a price determined by the Board and notified to each participant and shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of a share.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1 being payable by the participant. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by our Board to each participant provided that the period within which the option must be exercised shall not be more than 10 years from the date of the grant of option. The exercise of an option may be subject to the administration of our Board whose decision as to all matters arising from or in relation to the Scheme as its interpretation or effect shall (save as otherwise provided herein) be final and binding on all parties to the Scheme.

33. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

(d) Share option scheme (continued)

The following table discloses movements of the Company's share options:

		Number of share options								
Name or category of participant	Option type	At 1 January 2017	Exercised during the year	At 31 December 2017 and 1 January 2018	Exercised during the year	At 31 December 2018	Date of grant of share options (dd/mm/yy)	Exercise period of share options (dd/mm/yy)	Exercise price of share options HK$	Price of Company's share at grant date of share options HK$
Directors										
Mr. Chen Wei Wei	2014 tranche 1	3,450,000	(3,450,000)	–	–	–	18/12/14	18/12/14 to 17/12/17	0.65	0.65
Mr. Chen Wei Wei	2014 tranche 2	3,450,000	(3,450,000)	–	–	–	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Mr. Sun Shao Hua	2014 tranche 1	3,750,000	(3,750,000)	–	–	–	18/12/14	18/12/14 to 17/12/17	0.65	0.65
Mr. Sun Shao Hua	2014 tranche 2	3,750,000	(3,750,000)	–	–	–	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Ms. Hu Li Yu	2014 tranche 1	3,300,000	(3,300,000)	–	–	–	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Ms. Hu Li Yu	2014 tranche 2	3,300,000	(3,300,000)	–	–	–	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Employees of the Group	2014 tranche 1	9,500,000	(9,500,000)	–	–	–	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Employees of the Group	2014 tranche 2	9,500,000	(9,500,000)	–	–	–	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Employees of the Group	2015 tranche 1	20,000,000	–	20,000,000	(20,000,000)	–	24/04/15	24/04/15 to 23/04/18	1.09	1.09
Employees of the Group	2015 tranche 2	20,000,000	–	20,000,000	(20,000,000)	–	24/04/15	24/04/16 to 23/04/18	1.09	1.09
		80,000,000	(40,000,000)	40,000,000	(40,000,000)	–				
Weighted average exercise price (HK$)		0.87	0.65	1.09	1.09	–				

33. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

(d) Share option scheme (continued)

Options that were granted during the year ended 31 December 2014 have a term of three years commencing from 18 December 2014 and shall vest and become exercisable in two equal tranches on 18 December 2014 and 18 December 2015 respectively.

During the year ended 31 December 2015, options were granted and have a term of three years commencing from 24 April 2015 and shall vest become exercisable in two equal tranches on 24 April 2015 and 24 April 2016 respectively.

At 31 December 2018, the number of shares in respect of which share options had been granted and remained outstanding under the Scheme was Nil (2017: 40,000,000), representing approximately Nil % (2017: 3%) of the shares of the Company in issue at that date.

No share options granted during the year (2017: Nil), of which no share option expense was recognised (2017: Nil) during the year ended 31 December 2018.

The fair value of the share option is determined using the Black-Scholes Option Pricing Model. The Black-Scholes Model calculates the price variation over time of financial instruments such as stocks that can be used to determine the price of share options. The model assumes that the price of heavily traded assets follow a geometric Brownian motion with constant drift and volatility. When applied to price a share option, the model incorporates the constant price variation of the stock, the time value of money, the option's strike price and the time to the option's expiry.

The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Input into the model

Option type	2014 tranche 1	2014 tranche 2	2015 tranche 1	2015 tranche 2
Grant date share price	HK$0.65	HK$0.65	HK$1.09	HK$1.09
Exercise price	HK$0.65	HK$0.65	HK$1.09	HK$1.09
Expected volatility	59.39%	59.39%	60.35%	60.35%
Time to maturity	3 years	3 years	3 years	3 years
Dividend yield	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	0.78%	0.78%	0.78%	0.78%

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Interest in subsidiaries		407,573	510,866
Property, plant and equipment		114	104
		407,687	510,970
Current assets			
Prepayments, deposits and other receivables		447	413
Amount due from subsidiaries		71,788	68,096
Derivative financial instruments		–	9,596
Cash and bank balances		205	11,153
		72,440	89,258
Current liabilities			
Accruals and other payables		14,129	11,465
Derivative financial instrument		–	811
Promissory notes		258,434	166,563
Convertible bonds		8,153	16,922
Borrowings		41,797	–
		322,513	195,761
Net current liabilities		(250,073)	(106,503)
Total assets less current liabilities		157,614	404,467
Non-current liability			
Promissory note		–	127,599
		–	127,599
Net assets		157,614	276,868
Capital and reserves attributable to owners of the Company			
Share capital		11,161	10,760
Reserves	33(c)	146,453	266,108
Total equity		157,614	276,868

Approved by the board on 29 March 2019 and signed on its behalf by:

Mr. Chen Hong Cai
Chairman

Mr. Sun Shao Hua
Executive Director

35. PARTICULARS OF THE SUBSIDIARIES

Name of subsidiaries	Place and date of incorporation/ establishment/ operation	Nominal value of issued share capital/registered capital/paid-up capital	Percentage of attributable equity interest and voting power held by the Company Direct	Indirect	Principal activities
Rich Kirin Holdings Limited ("Rich Kirin")	The BVI, 13 June 2013	US$1	100	–	Investment holding
Big Wealth Limited ("Big Wealth")	The BVI 18 November 2005	US$100	–	100	Investment holding
HongSheng (Jiangxi) Color Printing Packaging Co., Ltd. ("HongSheng")	The PRC, wholly-owned foreign enterprise 29 November 2005	Registered capital HK$100,000,000 Paid-up capital HK$100,000,000	–	100	Sales of packaging materials
Jiangxi Hongyu New Materials Environmental Friendly Paper Co., Ltd. ("Hongyu") (Note (i))	The PRC, 6 May 2015	Registered capital RMB60,000,000 Paid-up capital Nil	–	100	Manufacture and sale of environmental friendly stone-paper based products
Cable King Limited ("Cable King")	The BVI, 15 July 2015	US$1	100	–	Investment holding
Wealthy Top (China) Limited ("Wealthy Top")	Hong Kong, 27 May 2015	HK$1	–	100	Investment holding
Chunxin (Xiamen) Investment Management Company Limited ("Chunxin")	The PRC, wholly-owned foreign enterprise 12 February 2017	Registered capital RMB1,000,000 Paid-up capital RMB1,000,000	–	100	Provision of consultancy services

Note:

(i) The registered capital of Hongyu is RMB60,000,000. As at 31 December 2018, the Group had not injected any capital to Hongyu and the amount will be injected prior to 5 May 2024.

36. STRUCTURED ARRANGEMENTS

As at 31 December 2018, the Group has an operating entity controlled through contractual arrangements in Cable King Group.

Particulars and main business of the operating entity

冰河(廈門)信息技術有限公司(Behill Science Technology Co., Ltd) ("Behill") is a limited liability company established under the laws of the PRC and is wholly owned by Mr. Huang Jianqiang (黃建強) ("Mr. Huang"). Behill is controlled by the Group through Chunxin by way of certain structured contracts in relation to controlling the Behill by Chunxin (the "Structured Contracts"). Behill is principally engaged in development, distribution and operation of gaming products.

Major terms of the structured contracts

Power of attorney

Mr. Huang executed an irrevocable power of attorney which enables Chunxin to exercise all the powers of the shareholders of Behill.

Exclusive call option agreement

Mr. Huang irrevocably and without any additional conditions grant an exclusive option to Chunxin under which Chunxin shall have the right to require Mr. Huang to transfer his equity interest in Behill on demand to Chunxin or its designated entity or individual.

Exclusive Technological Support and Management Consulting Service Agreement

Chunxin shall serve as the exclusive consultant and service provider to Behill, to provide a variety of consulting technical support services to Behill for its business. Behill shall pay to Chunxin a service fee that is equal to its 100% profits before income tax (net of operating and other tax expenses) on a monthly basis.

Business Cooperation Agreement

Behill and Mr. Huang shall appoint persons to be designated by Chunxin to be the chairman (when applicable), directors/executive directors, general manager, chief financial controller and other senior management of Behill. Behill shall be operated in accordance with the instruction of Chunxin and Mr. Huang has undertaken not to act in any manner that may affect the assets, business, personnel, obilgations, rights or the operations of Behill, unless with the prior written consent of the Chunxin or its appointee. In addition Chunxin shall have the right to obtain and review the business date, financial information and other information relevant to the operations and business of Behill.

36. STRUCTURED ARRANGEMENTS (continued)

Revenue and assets subject to the contractual arrangements

	2018 RMB'000	2017 RMB'000
Revenue	235,389	341,363
Net (loss)/profit	(33,550)	125,655

	2018 RMB'000	2017 RMB'000
Total assets	170,421	232,570

Equity pledge agreement

Mr. Huang agreed to pledge all equity interests in Behill to Chunxin as a security for Mr. Huang's and Behill's performance of their obligation under the foresaid agreements.

Significance of business of Behill to the Group

The Structured Contracts enabled the Group to enter into the development, distribution and operation of gaming products business and enhance the profitability of the Group.

37. PLEDGE ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (Note 27) and bills payable (Note 26) of the Group.

	2018 RMB'000	2017 RMB'000
Machinery (Note 16)	31,795	36,667
Buildings (Note 16)	44,314	47,388
Prepaid lease payments (Note 17)	2,195	2,255
Pledged bank deposits (Note 25)	–	12,000
	78,304	98,310

38. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had entered into the following related party transactions, which in the opinion of the Directors of the Company, were carried out on normal commercial terms and in the ordinary course of the Group.

(a) Key management personnel compensation

Compensation of key management personnel of the Group, including director's remuneration as detailed in Note 11 above.

	2018 RMB'000	2017 RMB'000
Fees	295	304
Other emoluments:		
Salaries, allowances and benefits in kind	9,399	10,439
Retirement benefit schemes contributions	84	85
Total	9,778	10,828

(b) Transaction

Name of related parties	Relationship	Nature of transactions	2018 RMB'000	2017 RMB'000
鴻聖信息科技(廈門)有限責任公司	Company controlled by a Director	Office premise rental expenses	676	660
Mr. Peng Dongmiao (Note)	Substantial shareholder	Interest expenses on Promissory Note 2	4,796	6,370
		Interest expenses on Promissory Note 4	5,863	2,689

Note: As a result of business combination, the Company issue consideration shares and Promissory Note 2 to Mr. Peng Dongmiao for the consideration of acquisition of the entire equity interest of Cable King Limited. Mr. Peng Dongmiao become the substantial shareholder of the Company. During the year ended 31 December 2018, interest expenses of approximately RMB10,659,000 (equivalent to approximately HK$12,630,000) (2017: RMB9,059,000 (equivalent to approximately HK$10,450,000)) was incurred in relation to Promissory Notes 2 and 4 held by Mr. Peng Dongmiao.

(c) Outstanding balance with related parties

The Group had Promissory Note 2 and Promissory Note 4 due to its substantial shareholder, Mr. Peng Dongmiao, as at the end of the reporting period, for details, please refer to Note 28.

39. COMMITMENTS

Operating lease commitment

The Group as lessee

At the end of the reporting period, the Group had commitments for the future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**1,580**	1,467
In the second to fifth years inclusive	**1,571**	3,076
	3,151	4,543

Capital commitment

	2018 RMB'000	2017 RMB'000
Authorised and contracted for capital contributions payable to subsidiaries	**60,000**	60,000

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank borrowings RMB'000 (Note 27)	Promissory notes RMB'000 (Note 28)	Convertible bonds RMB'000 (Note 29)	Total RMB'000
At 1 January 2017	91,110	239,146	32,868	363,124
Cash flows	(42,411)	(14,755)	(1,655)	(58,821)
Issue of promissory note	–	72,217	–	72,217
Conversion of convertible bonds	–	–	(17,056)	(17,056)
Foreign exchange adjustments	–	(19,608)	(1,730)	(21,338)
Other non-cash movements	4,301	17,162	4,495	25,958
At 31 December 2017 and 1 January 2018	53,000	294,162	16,922	364,084
Cash flows	34,687	(77,882)	(644)	(43,839)
Conversion of convertible bonds	–	–	(10,655)	(10,655)
Foreign exchange movements	1,621	13,947	542	16,110
Other non-cash movements	3,489	28,207	1,988	33,684
At 31 December 2018	**92,797**	**258,434**	**8,153**	**359,384**

41. COMPARATIVES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods design, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 3.

42. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2019.

Five-Year Financial Summary

For the year ended 31 December 2018

A summary of the results and of the assets and liabilities of the Group for the last five financial years as extracted from the published audited consolidated financial statements is set out below:

Results

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**690,750**	1,020,012	868,593	615,372	491,523
Cost of sales	**(525,104)**	(637,953)	(602,711)	(466,863)	(374,245)
Gross Profit	**165,646**	382,059	265,882	148,509	117,278
Other revenue	**3,364**	4,589	2,428	1,886	1,165
Other income	**1,610**	7,365	3,595	7,902	10,767
Selling and distribution expenses	**(172,587)**	(175,698)	(96,752)	(29,126)	(20,280)
Administrative expenses	**(86,701)**	(51,739)	(43,418)	(27,377)	(26,874)
Amortisation of intangible assets	**(5,166)**	(21,010)	(27,438)	–	–
Impairment loss on goodwill	**(200,609)**	–	–	–	–
Change in fair value of derivative financial instruments	**(8,733)**	1,860	4,030	(624)	–
Change in fair value of contingent consideration payable	**–**	(143,376)	(51,963)	–	–
Loss on modification of convertible bonds	**–**	–	–	(7,021)	–
Loss on early redemption of promissory notes	**(348)**	–	(5,185)	–	–
Equity-settled share option expenses	**–**	–	(2,389)	(15,931)	(4,274)
Finance costs	**(32,751)**	(33,033)	(26,269)	(8,374)	(1,781)
(Loss)/profit before tax	**(336,275)**	(28,983)	22,521	69,844	76,001
Income tax expenses	**(9,601)**	(21,668)	(14,600)	(15,079)	(13,879)
(Loss)/profit for the year	**(345,876)**	(50,651)	7,921	54,765	62,122

Assets and Liabilities

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**899,977**	1,310,933	1,305,796	683,037	382,784
Total liabilities	**(421,048)**	(516,584)	(725,896)	(332,015)	(106,694)
	478,929	794,079	579,900	351,022	276,090

Notes:

(i) The financial information for each of the five years ended 31 December 2018 have been prepared upon the Recognition as if the group structure, at the time when the Shares were listed on the Stock exchange, had been in existence throughout the years concerned.

(ii) The summary above does not from part of the audited financial statements.