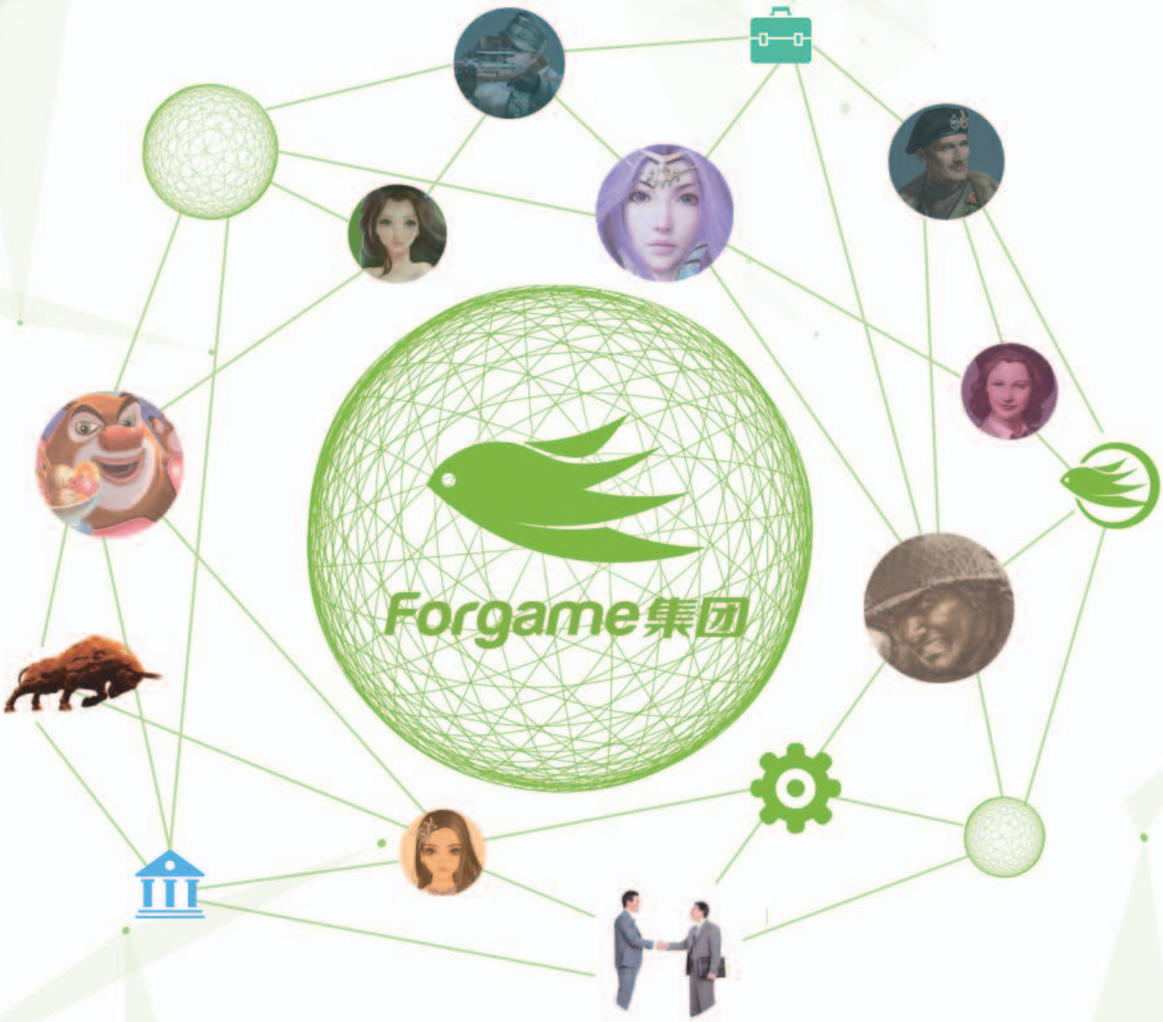
2016 Annual Report

Forgame Holdings Limited
雲遊控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00484



Forgame

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. WANG Dongfeng *(Chairman and Chief Executive Officer)*
Ms. LIANG Na

Non-executive Director
Mr. ZHANG Qiang

Independent Non-executive Directors
Mr. HOW Sze Ming
Ms. POON Philana Wai Yin
Mr. ZHAO Cong Richard

AUDIT AND COMPLIANCE COMMITTEE

Mr. HOW Sze Ming *(Chairman)*
Mr. ZHANG Qiang
Ms. POON Philana Wai Yin

REMUNERATION COMMITTEE

Mr. ZHAO Cong Richard *(Chairman)*
Mr. ZHANG Qiang
Mr. HOW Sze Ming

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. WANG Dongfeng
Ms. LU Feinan

COMPANY SECRETARY

Ms. LU Feinan

LEGAL ADVISORS

As to Hong Kong law:
(in alphabetical order)

Davis Polk & Wardwell
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

Sidley Austin
39/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Woo, Kwan, Lee & Lo
26/F, Jardine House
1 Connaught Place
Central
Hong Kong

As to Cayman Islands law:
(in alphabetical order)

Appleby
2206-19, Jardine House
1 Connaught Place
Central
Hong Kong

As to PRC law:

Jingtian & Gongcheng
34/F, Tower 3, China Central Place
77 Jianguo Road, Chaoyang District
Beijing
PRC

CORPORATE INFORMATION

AUDITOR

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

REGISTERED OFFICE

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

CORPORATE HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

CAYMAN ISLANDS PRINCIPAL REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4/F, Royal Bank House
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

China Merchants Bank, Hong Kong branch
21/F, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

China Merchants Banks, Guangzhou branch
Fung Hing sub-branch
Floor 1 & 6, Room 25-26
Fung Hing Square
No.67 Tianhe East Road
Guangzhou
China

INVESTOR RELATIONS

Strategic Financial Relations Limited
Unit A, 29/F, Admiralty Centre I
18 Harcourt Road
Hong Kong

COMPANY'S WEBSITE

www.forgame.com

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

00484

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

	Year Ended 31 December				
	2016	2015	2014	2013	2012
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Revenue	**361,564**	511,539	643,470	1,183,128	776,649
Gross profit	**72,549**	171,414	425,191	1,001,911	697,561
(Loss)/Profit for the year	**(396,492)**	(129,621)	(38,807)	(475,404)	217,617
Non-IFRSs Measures[(1)]					
– Adjusted net (loss)/profit for the year	**(240,147)**	(52,809)	(20,750)	325,202	240,031
– Adjusted EBITDA[(2)] for the year	**(207,813)**	(38,675)	(6,004)	408,866	297,178

Notes:

(1) The Group defines adjusted net (loss)/profit as (loss)/profit for the year excluding non-cash share-based compensation, changes in the value of financial assets at fair value through profit or loss, loss on disposal of a subsidiary, impairment of investment in associates, impairment of available-for-sale financial assets, fair value change of preferred shares and finance costs relating to the issuance of preferred shares. The use of adjusted net (loss)/profit has material limitation as an analytical tool, as adjusted net (loss)/profit does not include all items that impact the Group's net (loss)/profit for the years. For details of adjusted net (loss)/profit and adjusted EBITDA, please refer to the section headed "Management Discussion and Analysis – Non-IFRSs Measures – Adjusted Net Loss and Adjusted EBITDA" in this annual report.

(2) EBITDA means earnings before interests, taxes, depreciation and amortisation.

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Assets					
Non-current assets	**393,435**	281,706	352,460	170,376	104,864
Current assets	**768,382**	1,243,405	1,206,760	1,421,100	417,165
Total assets	**1,161,817**	1,525,111	1,559,220	1,591,476	522,029
Equity and liabilities					
Total equity/(deficit)	**1,058,110**	1,444,726	1,401,046	1,388,082	(136,663)
Non-current liabilities	**474**	2,202	7,553	8,465	459,290
Current liabilities	**103,233**	78,183	150,621	194,929	199,402
Total liabilities	**103,707**	80,385	158,174	203,394	658,692
Total equity and liabilities	**1,161,817**	1,525,111	1,559,220	1,591,476	522,029

CHAIRMAN'S STATEMENT

Dear Forgame Shareholders,

On behalf of the Board, I am pleased to present our financial performance for the year ended 31 December 2016.

OVERVIEW

At the beginning of 2016, the management set the goals to transition from a webgames business to a mobile games business and to diversify our geographical revenue sources, and we have made progress on both fronts while operating in a highly competitive environment. **Compared to a year ago, Forgame's mobile games revenue contribution increased from 60.5% to 63.8%, while revenue contribution from overseas increased from 10.6% to 13.0%.** Furthermore, our overseas blockbuster, "Liberators", was recognised by Facebook as one of the best webgames of 2016.

Despite these efforts, the Group's operations and gaming related investments have yet to produce a major hit game that will generate the type of revenue increase and healthy margin that both the management and the Shareholders have been hoping for. While the management asks for the Shareholders' patience as a few games in the pipeline have all exhibited the elements to become blockbuster games, we have also begun to seek ways to produce stable, scalable and positive net income sources through our investments. Our internal strategy discussion started with the question: "what are our core strengths?", and based on our historical track record, **it is clear that our strength lies in our ability to understand the fast changing PRC consumer preferences and to identify the next high-growth and high-margin technology industry.** We successfully identified the upcoming wave of webgames back in 2009 and subsequently became one of the leading PRC webgames developers that was able to scale to be listed on the mainboard of the Stock Exchange in a span of four years. We were also correct in identifying that the mobile game industry would become the next high-growth area. As we scour the market for the next trend, not only have we identified that fintech will be one of the next fastest growing and highly profitable markets that will easily eclipse the webgame wave that we had successfully captured, we have also identified an investible target that has all the hallmarks to become a market leader in its field, Yinker, also known as INK.

INK is one of the top PRC internet finance leaders by transaction volume through providing quality financing services over the internet to the public. **To be successful in this field, a thorough understanding and mastery of the technology and finance worlds is a must, and INK's management has sufficiently demonstrated their savviness in both fields.** On the technology side, INK was able to grow its transaction volume and revenue to RMB44.7 billion and RMB300 million for the year 2016, respectively. Its popular app Jianlicai (簡理財) ("Jianlicai"), which provides internet financial services, contributed transaction volume of RMB29 billion in 2016, approximately six times of that in 2015. Its success in branding as a professional and safe financing solution platform while deploying effective marketing strategy was critical to INK's success, and that was largely driven by the leadership of INK, particularly the chief executive officer of Jianlicai, Zhang Yang, who had a successful 10-year career with the Alibaba group prior to joining INK. On the finance side, the management of INK has built up an effective network to attract quality borrowers to make real-estate backed collateralised loans. The majority of these loans are made up of first-tier city real-estate backed loans, resulting in a 1.09% delinquency rate as of December 2016, which was comparable to other major market leaders in this field.

The Group is very excited about INK and as the management continues to monitor its performance, the Group is also actively seeking ways to have further exposure in this field. **The Group has successfully obtained the highly valued and sought-after licence that allows Forgame to operate internet finance business in the PRC from the Jiangxi provincial government (the "Internet Finance Business Licence").** This is an important ingredient in PRC's fintech world as it opens up many business and partnership opportunities.

OUTLOOK

The year of 2017 is expected to be another highly competitive year for standalone PRC mobile game developers, yet the management also believes Forgame is one blockbuster away from delivering the results the market expects. **At the same time, we look at our ability to adapt and change as our core competency, and we proceed to actively look for new opportunities within the internet, media and technology space.** Our investments in INK and obtaining the Internet Finance Business Licence are just the beginning of our plan to diversify into what we believe a high-growth and high profitability industry in the near future. While there will be short term challenges during the transformation, which are highlighted in the section headed "Management Discussion and Analysis-Transformation Plan: Risks and Hurdles" in this annual report, the Group strongly believes a brighter future will come soon. On behalf of the management, I want to sincerely thank the Shareholders and the Directors for your support and ask you to believe in us and that the management will be able to deliver higher shareholder value very soon.

APPRECIATION

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

WANG Dongfeng
Chairman

Hong Kong, 28 March 2017

REPORT OF DIRECTORS

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the development and publishing of webgames and mobile games in China. During 2016, the Group has launched and operated a total of 19 mobile games and 2 webgame titles. The Group has also continued to optimise the profitability of the Group's publishing platform, *91wan*. Capturing the mobile opportunity has been the major strategic direction of the Group, and the Group has implemented a series of strategic initiatives during 2016 by (i) devising and establishing an IP adaption strategy to develop mobile games based on popular TV animation, movie, and on-line literature IPs, (ii) establishing a casual game focused development and publishing team to deliver high quality casual games and (iii) carrying on the mid-hard core games development competency of the Group and publishing third party RPGs.

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 11a to the Financial Statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2016.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive loss from pages 75 to 76 of this annual report.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 is set out in the sections headed "Financial Highlights", "Chairman's Statement" and "Management Discussion and Analysis" from page 4, pages 5 to 6 and pages 36 to 47 of this annual report, respectively.

Description of principal risks and uncertainties that the Group may be facing can be found in the sections headed "Report of Directors – Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks" and "Management Discussion and Analysis – Transformation Plan: Risks and Hurdles" from pages 20 to 23 and page 47 of this annual report, respectively. An analysis of the Group's performance during the year using financial key performance indicators is set out in the section headed "Management Discussion and Analysis" from pages 36 to 47 of this annual report. In addition, the Group's first environmental, social and corporate government report (the "Environment, Social and Governance Report") can be found in the appendix to this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2016 (2015: Nil).

REPORT OF DIRECTORS

SHARE CAPITAL

During the year ended 31 December 2016, the Company had issued 681,946 Shares as a result of the exercise of the options granted under the Pre-IPO Share Options Scheme.

Details of the movement in the share capital of the Company during the year ended 31 December 2016 are set out in note 22 to the Financial Statements.

RESERVES

Details of the movements in reserves of the Group during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity on page 80 of this annual report and in note 23 to the Financial Statements.

USE OF PROCEEDS FROM IPO

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

As at 31 December 2016, the Group had utilised approximately HK$876.4 million of the net proceeds from the IPO, of which (i) approximately HK$386.3 million was used in the purchase of webgame and mobile game licences, the acquisition of IP rights authorisation and equity investments, (ii) approximately HK$92.5 million was used in funding the expansion of the Group's international operation, (iii) approximately HK$289.8 million was used in investments in the internet, media and technology industry, and (iv) approximately HK$107.8 million was used for other general corporate purposes. Such utilisation of the net proceeds was in accordance with the proposed allocations set out in the section headed "Future plans and use of proceeds" in the Prospectus, as subsequently amended and disclosed in the August Announcement. The unutilised portion of the net proceeds from the IPO (i.e. approximately HK$106.4 million) is currently held in cash and cash equivalents, and is intended to be applied in the manner consistent with the disclosed allocations.

USE OF PROCEEDS FROM PLACING

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

As at 31 December 2016, the Group had utilised approximately HK$61.6 million of the net proceeds from the Placing in operations and investments in the internet, media and technology industry. The unutilised portion of the net proceeds from the Placing (i.e. approximately HK$248.6 million) is currently held in cash and cash equivalents and short-term deposits, and is intended to be applied in the manner consistent with the stated use of proceeds as disclosed in the August Announcement and the December Announcement.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company had distributable reserves of approximately RMB1,201.2 million (as at 31 December 2015: RMB1,169.7 million), none of which had been proposed as final dividend for the year ended 31 December 2016.

FINANCIAL HIGHLIGHTS

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

CHARITABLE DONATIONS

Save for those disclosed in the paragraph headed "Contributions to the Society - Charitable Donation" in the Environmental, Social and Governance Report, no donation was made by the Group during the year ended 31 December 2016.

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group during the year ended 31 December 2016 are set out in note 14 to the Financial Statements.

REPORT OF DIRECTORS

BORROWINGS

During the year ended 31 December 2016, the Group did not have any short-term or long-term bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant unrecorded contingent liabilities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2016 and as at the Latest Practicable Date.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors during the year ended 31 December 2016 and up to the Latest Practicable Date were:

Executive Directors
Mr. WANG Dongfeng *(Chairman and Chief Executive Officer)*
Ms. LIANG Na *(appointed with effect from 24 May 2016)*

Non-executive Director
Mr. ZHANG Qiang *(appointed with effect from 24 May 2016)*
Mr. TUNG Hans *(retired with effect from 24 May 2016)*

Independent Non-executive Directors
Mr. HOW Sze Ming *(appointed with effect from 1 January 2016)*
Mr. LEVIN Eric Joshua *(resigned with effect from 1 January 2016)*
Ms. POON Philana Wai Yin
Mr. ZHAO Cong Richard

In accordance with article 104(1) of the Articles, Mr. TUNG Hans retired from office as a Non-executive Director by rotation at the annual general meeting of the Company held on 24 May 2016 and did not offer himself for re-election as a Non-executive Director at such annual general meeting in order to devote more time to focus on his other work commitments in San Francisco.

Ms. LIANG Na, the chief financial officer of the Group, and Mr. ZHANG Qiang were elected and appointed as an Executive Director and a Non-executive Director respectively at the annual general meeting of the Company held on 24 May 2016. The biographical information of Ms. LIANG Na and Mr. ZHANG Qiang has been disclosed on page 64 of this annual report.

Mr. LEVIN Eric Joshua resigned as an Independent Non-executive Director with effect from 1 January 2016 in order to focus on his other work commitments in New York. Following the resignation of Mr. LEVIN Eric Joshua, Mr. HOW Sze Ming was appointed as an Independent Non-executive Director with effect from 1 January 2016.

In accordance with article 104 of the Articles, Mr. WANG Dongfeng, an Executive Director, and Mr. ZHAO Cong Richard, an Independent Non-executive Director, shall retire from office by rotation at the Annual General Meeting and being eligible, will offer themselves for re-election as Directors at the Annual General Meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 63 to 67 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. WANG Dongfeng (Executive Director) has entered into a service contract with the Company for an initial term of three years with effect from 1 September 2013 (which was subsequently renewed for a further term of three years) unless terminated by not less than three months' notice in writing served by either the Director or the Company. Each of Ms. LIANG Na (Executive Director) and Mr. ZHANG Qiang (Non-executive Director) has entered into a service contract and an appointment letter with the Company respectively for an initial term of three years with effect from 24 May 2016 unless terminated by not less than 30 days' notice in writing served by either the Director or the Company. Each of the Independent Non-executive Directors has signed an appointment letter with the Company for a term of two years with effect from 1 September 2013 (which was subsequently renewed for a further term of two years, except for Mr. HOW Sze Ming whose appointment became effective on 1 January 2016) unless terminated by not less than 30 days' notice in writing served by either the Independent Non-executive Director or the Company. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REPORT OF DIRECTORS

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

As at 31 December 2016, the interests and short positions of the Directors and chief executives at the relevant time being in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director/ Chief Executive	Capacity/Nature of Interest	Relevant Company (Including Associated Corporation)	Relevant Class of Shares/ Underlying Shares held	Approximate Percentage of Shareholding
WANG Dongfeng (汪東風)	Founder of the Discretionary Trust Interest of Controlled Corporation[1]	The Company	21,673,338 Ordinary Shares (long position)	15.76%
	Beneficial Owner[2]	The Company	500,000 Ordinary Shares (long position)	0.36%
POON Philana Wai Yin (潘慧妍) [3]	Beneficial Owner	The Company	201,900 Ordinary Shares (long position)	0.15%
ZHAO Cong Richard (趙聰) [4]	Beneficial Owner	The Company	201,900 Ordinary Shares (long position)	0.15%
HOW Sze Ming (侯思明) [5]	Beneficial Owner	The Company	100,000 Ordinary Shares (long position)	0.07%
ZHANG Qiang (張強) [6]	Beneficial Owner	The Company	100,000 Ordinary Shares (long position)	0.07%
LIANG Na (梁娜) [7]	Beneficial Owner	The Company	1,493,589 Ordinary Shares (long position)	1.09%

Notes:

(1) Foga Group is wholly-owned by Managecorp Limited as the trustee of Wang Trust. Wang Trust is a discretionary trust set up by Mr. WANG Dongfeng, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary objects of Wang Trust include Mr. WANG Dongfeng and certain of his family members. Mr. WANG Dongfeng and Managecorp Limited are taken to be interested in the 21,673,338 Shares held by Foga Group.

(2) Mr. WANG Dongfeng was granted 500,000 RSUs under the Restricted Share Unit Scheme, 125,000 of which were vested on 1 December 2016.

(3) Ms. POON Philana Wai Yin was interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 31,900 Shares, and the Post-IPO Share Option Scheme to subscribe for 70,000 Shares as at 31 December 2016. 17,500 Post-IPO Share Options in which she was interested lapsed on 31 March 2017. She was also granted 100,000 RSUs under the Restricted Share Unit Scheme, 25,000 of which were vested on 1 December 2016.

(4) Mr. ZHAO Cong Richard was interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 31,900 Shares, and the Post-IPO Share Option Scheme to subscribe for 70,000 Shares as at 31 December 2016. 17,500 Post-IPO Share Options in which he was interested lapsed on 31 March 2017. He was also granted 100,000 RSUs under the Restricted Share Unit Scheme, 25,000 of which were vested on 1 December 2016.

(5) Mr. HOW Sze Ming was granted 100,000 RSUs under the Restricted Share Unit Scheme, 25,000 of which were vested on 1 December 2016.

(6) Mr. ZHANG Qiang was granted 100,000 RSUs under the Restricted Share Unit Scheme, 25,000 of which were vested on 1 December 2016.

(7) Ms. LIANG Na was interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 82,089 Shares, and the Post-IPO Share Option Scheme to subscribe for 591,500 Shares as at 31 December 2016. She exercised 30,000 Pre-IPO Share Options and 15,000 Pre-IPO Share Options on 4 January 2017 and 5 January 2017 respectively. 87,500 Post-IPO Share Options in which she was interested lapsed on 31 March 2017. Ms. LIANG Na was also granted 820,000 RSUs under the Restricted Share Unit Scheme, 205,000 of which were vested on 1 December 2016.

Save as disclosed above, none of the Directors or chief executives of the Company at the relevant time has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2016.

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

As at 31 December 2016, the following are the persons, other than the Directors or chief executives of the Company at the relevant time, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name	Capacity/Nature of Interest	Number and Class of Shares	Approximate Percentage of Shareholding
Managecorp Limited(1) (2)	Trustee	29,437,335 Ordinary Shares (long position)	21.40%
Foga Group(1)	Registered Owner	21,673,338 Ordinary Shares (long position)	15.76%
GU Wei	Registered Owner	16,073,000 Ordinary Shares (long position)	11.68%
LIAO Dong(2)	Founder of Discretionary Trust Interest of Controlled Corporationt	7,763,997 Ordinary Shares (long position)	5.64%
Foga Holdings(2)	Registered Owner	7,763,997 Ordinary Shares (long position)	5.64%
KongZhong Corporation	Registered Owner	12,306,100 Ordinary Shares (long position)	8.95%
Foga Internet Development(3)	Registered Owner	7,785,700 Ordinary Shares (long position)	5.66%
YANG Tao	Interest of Controlled Corporation(3)	7,785,700 Ordinary Shares (long position)	5.66%
	Beneficial Owner(4)	1,340,000 Ordinary Shares (long position)	0.97%

Notes:

(1) Foga Group is wholly-owned by Managecorp Limited as the trustee of Wang Trust. Wang Trust is a discretionary trust set up by Mr. WANG Dongfeng, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary objects of Wang Trust include Mr. WANG Dongfeng and certain of his family members. Mr. WANG Dongfeng and Managecorp Limited are taken to be interested in 21,673,338 Shares held by Foga Group.

(2) Foga Holdings is wholly-owned by Managecorp Limited as the trustee of Hao Dong Trust. Hao Dong Trust is a discretionary trust set up by Mr. LIAO Dong as settlor and protector and Managecorp Limited as trustee on 15 March 2013. The beneficiary object of Hao Dong Trust is Mr. LIAO Dong himself. Mr. LIAO Dong and Managecorp Limited are taken to be interested in 7,763,997 Shares held by Foga Holdings.

(3) Foga Internet Development is wholly-owned by Mr. YANG Tao. Mr. YANG Tao is taken to be interested in the 7,785,700 Shares held by Foga Internet Development.

(4) Mr. YANG Tao was granted 1,340,000 RSUs under the Restricted Share Unit Scheme, 335,000 of which were vested on 1 December 2016.

Save as disclosed above, as at 31 December 2016, the Company is not aware of any other person (other than the Directors or chief executives of the Company at the relevant time) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors and chief executives' interests and short positions in shares, underlying shares and debentures" above, at no time during the year ended 31 December 2016 and up to the Latest Practicable Date was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Group (including the PRC Operational Entities), none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group for the year ended 31 December 2016.

CONNECTED TRANSACTIONS

Contractual Arrangements

Background

Investment activities in the PRC by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment, which was most recently jointly amended by the Ministry of Commerce and the National Development and Reform Commission on 10 March 2015 and became effective on 10 April 2015 (the "Catalogue"). The Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign invested industries and prohibited foreign investment industries. According to the Catalogue, the webgame business and mobile game business that the Company currently operates are regarded as value-added telecommunications services (except for e-commerce) and internet cultural business (except for music), and fall within the restricted industry category and the prohibited industry category, respectively.

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

As advised by the Company's PRC legal advisers, as at 31 December 2016, no applicable PRC laws, regulations or rules had provided clear guidance or interpretation on the Qualification Requirement, and there was no update to the Qualification Requirement. Further, the amendments made on the Catalogue in April 2015 did not lessen the requirements in respect of foreign investments on value-added telecommunications services and internet cultural business.

In order for the Company to be able to carry on its business in China, the Group entered into a series of contractual arrangements between Feidong, on one hand, the PRC Operational Entities and their respective shareholders on the other hand, which enable the Company to exercise control over the PRC Operational Entities and Feidong, and to consolidate these companies' financial results in the results of the Company under IFRSs as if they were wholly-owned subsidiaries of the Company.

Progress of overseas expansion plans

Despite the lack of clear guidance or interpretation on the Qualification Requirement, the Company has been gradually building up the track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests of the PRC Operational Entities when the PRC laws allow foreign investors to invest in value-added telecommunications enterprises in China.

The Group operated two overseas offices in 2016, and these offices are separately located in Hong Kong and Taiwan. The Hong Kong office mainly provides managerial support to the Group while the Taiwan office serves as a game development and publishing centre for the Greater China and Southeast Asia market. Regarding the Group's office in Taiwan, the management of the Group has decided to terminate its operation and merge its function into the Group's Shanghai office. Overall, the Group's overseas presence and contribution remains small compared to the Group's overall business portfolio.

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

The following sets out a summary of the major terms of the structured contracts under the Contractual Arrangements which were in place during the year ended 31 December 2016:

i. Exclusive options agreements dated June and July 2012, which were amended and restated on 12 September 2013, entered into between each of the PRC Operational Entities, their respective shareholders, and Feidong, under which Feidong was granted an exclusive irrevocable option to purchase from the respective shareholders some or all of their equity interests in the PRC Operational Entities at any time, at a nominal amount subject to applicable PRC laws.

ii. Exclusive business cooperation agreements dated 21 June 2012, which were amended and restated on 12 September 2013, entered into between each of the PRC Operational Entities and Feidong, under which each of the PRC Operational Entities agreed to engage Feidong as its exclusive provider of business support, technical and consulting services, including network support, business consultations, intellectual property development, equipment leasing, marketing consultancy, system integration, product research and development and system maintenance, in exchange for a monthly service fee. The monthly fee is, subject to Feidong's adjustment, equal to 100% of the net income of the PRC Operational Entities and may also include accumulated earnings of the PRC Operational Entities from previous financial years. Pursuant to the exclusive business cooperation agreements, Feidong also has the exclusive and proprietary rights to all intellectual properties developed by the PRC Operational Entities.

iii. Share pledge agreements dated July 2012, which were amended and restated on 12 September 2013, entered into between each of the PRC Operational Entities, its respective shareholders, and Feidong, under which the shareholders of the PRC Operational Entities pledged all of their respective equity interests in the PRC Operational Entities to Feidong as collateral security for all of their payments due to Feidong and to secure performance of their obligations under the above-mentioned exclusive business cooperation agreements.

iv. Irrevocable powers of attorney executed in June and July 2012, which were amended and restated on 12 September 2013, executed by each of the shareholders of the PRC Operational Entities to appoint Feidong as the exclusive agent and attorney to act on their behalf on all matters concerning the PRC Operational Entities and to exercise all of their rights as registered shareholders of the PRC Operational Entities.

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

Apart from the above, there are no new Contractual Arrangements entered into, renewed or reproduced between the Group and the PRC Operational Entities during the year ended 31 December 2016. There was no material change in the Contractual Arrangements or the circumstances under which they were adopted during the year ended 31 December 2016.

During the year ended 31 December 2016, none of the structured contracts mentioned above has been unwound as none of the restrictions that led to the adoption of structured contracts under the Contractual Arrangements has been removed.

Particulars of the PRC Operational Entities as at 31 December 2016:

Name of the PRC Operational Entities	Type of legal entity/place of establishment and operation	Registered owners	Business activities
Feiyin	Limited liability company/the PRC	41.10% by Mr. Huang 24.70% by Mr. Liao 23.75% by Mr. Wang 9.50% by Mr. Zhuang 0.95% by Mr. Yang	Development of webgames and mobile games; operations and investments in the internet finance business (through Yunke, a wholly-owned subsidiary of Feiyin established under the laws of the PRC in 2016)
Weidong	Limited liability company/the PRC	41.10% by Mr. Huang 24.70% by Mr. Liao 23.75% by Mr. Wang 9.50% by Mr. Zhuang 0.95% by Mr. Yang	Development and operation of webgames and mobile games; provision of information technology services (through Yunxin, a 70% owned subsidiary of Weidong established under the laws of the PRC in 2016)
Jieyou	Limited liability company/the PRC	48.61% by Mr. Zhuang 20.94% by Mr. Wang 17.13% by Mr. Liao 12.37% by Mr. Huang 0.95% by Mr. Yang	Development and operation of webgames and mobile games

The PRC Operational Entities are significant to the Group as they hold certain licences and permits that are essential to the operation of the business of the Group, such as the ICP Licence, the Network Cultural Business Permit and the Internet Publication Licence and the Internet Finance Business Licence. In addition, most of the intellectual property rights, including software copyrights, trademarks, patents and domain names, are held by the PRC Operational Entities.

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

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

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

i. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the state, (ii) malicious collusion is conducted to damage the interest of the state, a collective unit or a third party, (iii) the contract damages the public interest, (iv) an illegitimate purpose is concealed under the guise of legitimate acts or (v) the contract violates the mandatory provisions of the laws or administrative regulations. As advised by the Company's PRC legal advisers, the relevant terms of the Contractual Arrangements do not fall within any of the aforementioned five circumstances, and in particular, would not be deemed as "concealing an illegitimate purpose under the guise of legitimate acts" under Article 52 of the PRC Contract Law, and do not violate the provisions of the PRC Contract Law or the General Principles of the PRC Civil Law.

ii. According to the Contractual Arrangements, when a dispute arises, any party to the agreements may submit such dispute to the China International Economic and Trade Arbitration Commission for settlement pursuant to the effective arbitration rules at that time, and the arbitration award shall be final and binding on the parties. Arbitration tribunal may decide compensation for the equity interests and property ownership of the on-shore subsidiaries, decide enforceable remedy or demand liquidation of relevant business or enforceable asset transfer. Any party is entitled to request the competent court to execute the arbitration award when it comes into effect. The courts in Hong Kong and Cayman Islands also have the right to grant or execute awards of arbitration tribunal and make decision or execute temporary remedy on the equity interests and property ownership of the on-shore subsidiaries. However, pursuant to the laws of China, in the settlement of dispute, the arbitration tribunals shall not be entitled to grant an injunctive order to protect the property ownership or equity interests of the on-shore subsidiaries, and shall not issue a temporary or final liquidation order directly. Moreover, the interim remedies or orders granted by the off-shore courts, including Hong Kong and Cayman Islands, may not be recognised or enforced by the courts in China. Therefore, such terms in above agreements may not be enforceable under the laws of China.

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

	Risk associated with the Contractual Arrangements	Mitigation actions taken by the Company
i.	If the PRC government finds that the agreements that establish the structure for operating the business of the Company in the PRC do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe penalties or be forced to relinquish the interests in those operations.	Pursuant to the amended and restated exclusive business cooperation agreements, at any time after the date of such agreements, in the event of any promulgation or change of any law, regulation or rule of China or any interpretation or applicable change of such laws, regulations or rules, the following agreement shall be applicable: if the economic interests of any party under the agreements suffer a significant adverse effect directly or indirectly due to above change of laws, regulations or rules, the agreements should continue to operate pursuant to the original terms. Each of the parties shall obtain a waiver for complying with such change or rule via all legal channels. If any adverse effect on the economic interests of any party may not be eliminated according to the relevant agreement, upon the receipt by the other parties of such notice from the affected party, all the parties shall promptly discuss and make all necessary modification to the agreements to preserve the economic interests of the affected party under the agreement.
ii.	The Contractual Arrangements may not be as effective in providing operational control as direct ownership and the PRC Operational Entities or their shareholders may fail to perform their obligations under the Contractual Arrangements.	According to the amended and restated powers of attorney, the amended and restated share pledge agreements and the amended and restated exclusive business cooperation agreements, the arbitration tribunal may decide compensation for the equity interests or property ownership of the PRC Operational Entities or their shareholders, decide enforceable remedy or demand bankruptcy of the PRC Operational Entities or their shareholders for relevant business or enforceable asset transfer. Any party is entitled to request the competent court to execute the arbitration award when it comes into effect.

	Risk associated with the Contractual Arrangements	Mitigation actions taken by the Company
iii.	The Company may lose the ability to use and enjoy assets held by the PRC Operational Entities that are important to the operation of the business of the Group if the PRC Operational Entities declare bankruptcy or become subject to dissolution or liquidation proceedings.	Pursuant to the amended and restated exclusive option agreements, in the event of a mandatory liquidation required by the laws of PRC, the relevant PRC Operational Entities shall sell all of their assets and any residual interest through a non-reciprocal transfer to the extent permitted by the laws of PRC to Feidong or another qualifying entity designated by Feidong, at the lowest selling price permitted by applicable laws of the PRC.
iv.	The Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that the Group owes additional taxes could substantially reduce the consolidated net income of the Group and the value of the investment of the Shareholders.	As advised by the Company's PRC legal advisers, who took the view that the Contractual Arrangements will not be challenged by the PRC tax authorities or other government authorities, provided that Feidong and the PRC Operational Entities implement the Contractual Arrangements in accordance with the terms of the structured contracts, unless the PRC tax authorities determine that such transactions are not conducted on an arm's length basis.
v.	The Group may be subject to higher income tax rates and incur additional taxes as a result of the Contractual Arrangements, which may increase the tax expenses and decrease the new profit margin.	Pursuant to the PRC Enterprise Income Tax Law, Feidong and Jieyou qualified as "software enterprises", and Weidong and Feiyin qualified as "high and new technology enterprises". Accordingly, they were entitled to preferential income tax rates during preferential periods as disclosed in note 12 to the Financial Statements. They will use reasonable endeavours to take all necessary actions to maintain their qualification status in order to continue to enjoy the preferential tax treatment. Please also refer to paragraph iv above.

	Risk associated with the Contractual Arrangements	Mitigation actions taken by the Company
vi.	Shareholders of the PRC Operational Entities may potentially have a conflict of interest with the Group, and such shareholders may breach their contracts with Group, or cause such contracts to be amended in a manner contrary to the interests of the Group.	The shareholders of the PRC Operational Entities have undertaken to Feidong that during the period when the Contractual Arrangements remain effective, (i) unless otherwise agreed by Feidong in writing, the relevant shareholder would not, directly or indirectly (either on his own account or through any natural person or legal entity) participate, be interested in, engage in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may potentially be in competition with the businesses of the PRC Operational Entities or any of its affiliates and (ii) any of his actions or omissions would not lead to any conflict of interest between him and Feidong (including but not limited to its shareholders). Furthermore, in the event of the occurrence of a conflict of interest (where Feidong has the sole absolute discretion to determine whether such conflict arises), he agrees to take any appropriate actions as instructed by Feidong.
vii.	The Group depends on the PRC Operational Entities to provide certain services that are critical to its business. The breach or termination of any of these service agreements or any failure of or significant quality deterioration in these services could have a material adverse effect on the business, financial condition and results of operations of the Group.	To ensure sound and effective operation of the Group after the adoption of the Contractual Arrangements, the relevant business units and operation divisions of the Group will report regularly, no less frequent than on a monthly basis, to the senior management of the Company on the compliance and performance conditions under the Contractual Arrangements and other related matters. In addition, the PRC Operational Entities are not permitted to terminate the amended and restated exclusive business cooperation agreements unless Feidong commits gross negligence or a fraudulent act against them.

	Risk associated with the Contractual Arrangements	Mitigation actions taken by the Company
viii.	The Group conducts its business operation in the PRC through the PRC Operational Entities by way of Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under the PRC laws.	As advised by the Company's PRC legal advisers, the Contractual Arrangements were narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations.
ix.	If Feidong (or its designee within the Group) exercises the option to acquire equity ownership of the PRC Operational Entities, the ownership transfer may subject the Group to substantial costs.	According to the amended and restated exclusive option agreements, unless valuation is required under the laws of China before exercising such option, the purchase price of the equity interests shall be the nominal price, and if the relevant governmental authorities specify a particular price as the purchase price of equity interests, the purchaser shall return the surplus or make up the difference to the vendor, provided that the vendor and purchaser need to assume such tax incurred by such party or levied on such party, respectively.

For details of the risks associated with the Contractual Arrangements, please refer to the section headed "Risk Factors - Risks relating to our Contractual Arrangements" in the Prospectus.

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

For the year ended 31 December 2016, the services provided by Feidong to the PRC Operational Entities (including sales of intellectual property, provision of product development and system maintenance services, provision of data integration services) amounted to an aggregate of approximately RMB13.7 million.

The revenue and the total asset value of the PRC Operational Entities subject to the Contractual Arrangements amounted to approximately RMB210.8 million for the year ended 31 December 2016 and approximately RMB495.7 million as at 31 December 2016, respectively.

WAIVER FROM THE STOCK EXCHANGE AND ANNUAL REVIEW

For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the PRC Operational Entities are treated as the Company's connected persons. Accordingly, the transactions between these connected persons and Feidong, a wholly-owned subsidiary of the Company, under the Contractual Arrangements constitute continuing connected transactions under the Listing Rules. The Stock Exchange has granted a specific waiver to the Company from strict compliance with the connected transactions requirement under Chapter 14A of the Listing Rules in respect of the Contractual Arrangements. For details, please refer to the section headed "Connected Transactions" in the Prospectus.

The Directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

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

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Independent Non-executive Directors have also confirmed that (i) the transactions carried out during the year ended 31 December 2016 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by the PRC Operational Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group, and (iii) there were no new contracts entered into, renewed or reproduced between the Group and the PRC Operational Entities during the year ended 31 December 2016. Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain agreed-upon procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transaction under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants on the aforesaid continuing connected transactions. Based on the work performed, the auditors of the Company have provided a letter to the Board confirming that:

1. nothing has come to their attention that causes the auditors of the Company to believe that the disclosed continuing connected transactions have not been approved by the Board;

2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditors of the Company to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. nothing has come to their attention that causes the auditors of the Company to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and

4. nothing has come to their attention that causes the auditors of the Company to believe that dividends or other distributions have been made by the PRC Operational Entities to the holders of its equity interests which are not otherwise subsequently assigned/transferred to the Group.

During the year ended 31 December 2016, no related parties transactions disclosed in note 31 to the Financial Statements constitutes a connected transaction or continuing connected transaction which should be disclosed pursuant to the Rules 14A.49 and 14A.71 of the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director or his connected entities had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its parent company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2016 and up to the Latest Practicable Date.

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 ended 31 December 2016 and up to the Latest Practicable Date.

REMUNERATION POLICY AND DIRECTORS' REMUNERATION

As at 31 December 2016, the Group had 399 employees. The remuneration to the employees of the Group includes salaries, bonus and allowances. The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. The Group also provides intensive customised trainings to its staff to enhance their technical and product knowledge as they will be designated to mentors who are experienced employees in relevant teams or departments. The mentors will provide regular on-the-job trainings to the staff. The Group offers competitive remuneration packages to the Directors, and the Shareholders have authorised the Board to fix the remuneration of the Directors (including but not limited to Directors' fees) at the Company's annual general meeting held on 24 May 2016. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

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

Details of the Directors' remuneration during the year ended 31 December 2016 are set out in note 35 to the Financial Statements.

PRE-IPO SHARE OPTION SCHEME

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

REPORT OF DIRECTORS

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

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

Name of grantee	Number and class of Shares under the options granted	Date of grant	Vesting year	Option year	Outstanding as at 1 January 2016	Exercise price	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2016
Directors										
LIANG Na	157,589 Ordinary Shares	1 January 2013	3 October 2013 to 1 May 2016	10 years from the date of grant	82,089 Ordinary Shares	Par value of the ordinary shares	—	—	—	82,089 Ordinary Shares
POON Philana Wai Yin	49,400 Ordinary Shares	1 September 2013	3 October 2013 to 1 September 2015	10 years from the date of grant	49,400 Ordinary Shares	Par value of the ordinary shares	—	—	—	49,400 Ordinary Shares
ZHAO Cong Richard	49,400 Ordinary Shares	1 September 2013	3 October 2013 to 1 September 2015	10 years from the date of grant	49,400 Ordinary Shares	Par value of the ordinary shares	—	—	—	49,400 Ordinary Shares
Sub-Total	**256,389 Ordinary Shares**	**—**	**—**	**—**	**180,889 Ordinary Shares**	**—**	**—**	**—**	**—**	**180,889 Ordinary Shares**
One former Director and 361 employees	6,184,522 Ordinary Shares	1 January 2013 to 1 September 2013	3 October 2013 to 1 July 2017	10 years from the date of grant	1,911,045 Ordinary Shares	Par value of the ordinary shares	681,946 Ordinary Shares (Note)	—	216,265 Ordinary Shares	1,012,834 Ordinary Shares
Total	**6,440,911 Ordinary Shares**	**—**	**—**	**—**	**2,091,934 Ordinary Shares**	**—**	**681,946 Ordinary Shares**	**—**	**216,265 Ordinary Shares**	**1,193,723 Ordinary Shares**

Note: The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK$8.85 (equivalent to approximately RMB7.58) per share.

As a result of the exercise of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2016, the Company has issued 681,946 Shares to the grantees for an aggregate consideration of US$68.1946. Such Shares are of the same class and are identical in all respect with other Shares in issue.

For further details of the Pre-IPO Share Option Scheme, please refer to the section headed “Statutory and General Information” in Appendix IV to the Prospectus and note 24a to the Financial Statements.

POST-IPO SHARE OPTION SCHEME

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

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

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

Name of grantee	Number and class of Shares under the options granted	Date of grant	Vesting year	Option year	Outstanding as at 1 January 2016	Exercise price	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2016
LIANG Na	329,000 Ordinary Shares	2 January 2015	2 July 2015 to 2 January 2017	4 years from the date of grant	329,000 Ordinary Shares	HK$14.61	—	—	—	329,000 Ordinary Shares
14 employees	1,579,000 Ordinary Shares	2 January 2015	2 July 2015 to 2 January 2017	4 years from the date of grant	1,209,000 Ordinary Shares	HK$14.61	—	—	115,000 Ordinary Shares	1,094,000 Ordinary Shares
LIANG Na(1)	350,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	350,000 Ordinary Shares	HK$24.29	—	—	87,500 Ordinary Shares	262,500 Ordinary Shares
POON Philana(2) Wai Yin	70,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	70,000 Ordinary Shares	HK$24.29	—	—	17,500 Ordinary Shares	52,500 Ordinary Shares
ZHAO Cong(3) Richard	70,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	70,000 Ordinary Shares	HK$24.29	—	—	17,500 Ordinary Shares	52,500 Ordinary Shares
Two former Directors and 20 employees	3,355,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	3,355,000 Ordinary Shares	HK$24.29	—	—	2,867,500 Ordinary Shares	487,500 Ordinary Shares
Total	**5,753,000 Ordinary Shares**	**—**	**—**	**—**	**5,383,000 Ordinary Shares**	**—**	**—**	**—**	**3,105,000 Ordinary Shares**	**2,278,000 Ordinary Shares**

Notes:

(1) 87,500 Post-IPO Share Options in which Ms. LIANG NA was interested lapsed on 31 March 2017.

(2) 17,500 Post-IPO Share Options in which Ms. POON Philana Wai Yin was interested lapsed on 31 March 2017.

(3) 17,500 Post-IPO Share Options in which Mr. ZHAO Cong Richard was interested lapsed on 31 March 2017.

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

During the year ended 31 December 2016, no options granted under the Post-IPO Share Option Scheme was exercised.

For further details of the Post-IPO Share Option Scheme, please refer to the section headed "Statutory and General Information" in Appendix IV to the Prospectus and note 24b to the Financial Statements.

SUMMARY OF THE SHARE OPTION SCHEMES

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

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
3.	Maximum number of Shares	As at 31 December 2016 and the Latest Practicable Date, options to subscribe for an aggregate of 1,193,723 Shares and 954,894 Shares were outstanding respectively, representing approximately 0.87% and 0.69% of the issued share capital of the Company as at 31 December 2016 and the Latest Practicable Date, respectively No further option could be granted under the Pre-IPO Share Option Scheme	As at 31 December 2016 and the Latest Practicable Date, the maximum number of Shares available for issue in respect of which options may be granted or have been granted but have not been exercised under the Post-IPO Share Option Scheme was 15,970,863 Shares and 15,620,863 Shares respectively, representing approximately 11.61% and 11.34% of the issued share capital of the Company as at 31 December 2016 and the Latest Practicable Date, respectively The maximum number of the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other scheme of the Company must not in aggregate exceed 30% of the total number of Shares in issue from time to time
4.	Maximum entitlement of each participant	The total number of Shares subject to the Pre-IPO Share Option Scheme shall not exceed 6% of the aggregate of the Shares in issue on 31 October 2012, the date of adoption of the Pre-IPO Share Option Scheme	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant
5.	Option year	Except as provided otherwise and subject to the terms and conditions upon which such option was granted, any option granted will vest over a total vesting year of four years commencing from the date of offer in equal proportions of 25% each on the expiry of the first, second, third and fourth anniversary of the Offer Date, respectively; provided that the year within which an option must be exercised shall not be more than ten years commencing on the date of grant	The option year is determined by the Board provided that it is no later than the tenth anniversary of the date of grant. There is no minimum year for which an option must be held before it can be exercised The Board may in its absolute discretion specify such conditions as to performance criteria to be satisfied by the participant and/or the Company and/or the Group which must be satisfied before an option can be exercised

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
6.	Acceptance of offer	Options granted must be accepted within 28 days of the date of grant, upon payment of HK$1.0 per grant	Options granted must be accepted within the date as stated in the notice of grant, upon payment of HK$1.0 per grant
7.	Exercise price	Exercise price shall be the par value of the Shares as amended as a result of any subdivision, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As at the date of the grant, the par value of the Shares was US$0.0001	Exercise price shall be not less than the highest of (i) the nominal value of an ordinary share on the date of grant, (ii) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options and (iii) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the grant
8.	Remaining life of the scheme	It shall be valid and effective for ten years commencing on 31 October 2012	It shall be valid and effective for ten years commencing on 3 October 2013

THE RESTRICTED SHARE UNIT SCHEME

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

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

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

Set out below are details of the outstanding RSUs granted to the Directors and employees of the Group under the RSU Scheme as at 31 December 2016:

Name of grantee	Number and class of Shares under the RSUs granted	Date of offer	Vesting year	Vested during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2016
WANG Dongfeng	500,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	125,000 Ordinary Shares	—	—	375,000 Ordinary Shares
LIANG Na	820,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	205,000 Ordinary Shares	—	—	615,000 Ordinary Shares
ZHANG Qiang	100,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	25,000 Ordinary Shares	—	—	75,000 Ordinary Shares
POON Philana Wai Yin	100,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	25,000 Ordinary Shares	—	—	75,000 Ordinary Shares
ZHAO Cong Richard	100,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	25,000 Ordinary Shares	—	—	75,000 Ordinary Shares
HOW Sze Ming	100,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	25,000 Ordinary Shares	—	—	75,000 Ordinary Shares
Sub-Total	**1,720,000 Ordinary Shares**	**—**	**—**	**430,000 Ordinary Shares**	**—**	**—**	**1,290,000 Ordinary Shares**
17 employees	2,540,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	635,000 Ordinary Shares	—	—	1,905,000 Ordinary Shares
Total	**4,260,000 Ordinary Shares**	**—**	**—**	**1,065,000 Ordinary Shares**	**—**	**—**	**3,195,000 Ordinary Shares**

SUMMARY OF THE RSU SCHEME

1.	Purpose	To reward the participants of the RSU Scheme for their contribution to the success of the Group, and to provide incentives to them to further contribute to the Group
2.	Participants	(i) full-time employees or officers (including Executive, Non-executive and Independent Non-executive Directors), (ii) full-time employees of any of the subsidiaries and the PRC Operational Entities, (iii) any suppliers, customers, consultants, agents, advisers that have contributed or will contribute to the Company, any of its subsidiaries and/or the PRC Operational Entities, and (iv) any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Company, any of its subsidiaries and/or the PRC Operational Entities
3.	Maximum number of Shares	As at 31 December 2016 and the Latest Practicable Date, the maximum number of Shares underlying the RSUs available for grant was 7,030,494 Shares and 7,180,494 Shares respectively, representing approximately 5.11% and 5.21% of the issued share capital of the Company as at 31 December 2016 and the Latest Practicable Date, respectively The maximum number of Shares underlying the RSUs which may be granted must not in aggregate exceed 11,290,494 Shares, representing 9% of the number of Shares in issue on the Listing Date (the "RSU Scheme Limit"). The RSU Scheme Limit may be refreshed from time to time subject to prior Shareholders' approval, but must not exceed 9% of the number of Shares in issue as at the new approval date
4.	Acceptance of Award	A grant shall be deemed to have been accepted when in respect of a board lot or an integral multiple thereof and to have taken effect when notice is given to the Company by the grantee in accordance with the instructions from the Company pursuant to the RSU management agreement, being an agreement entered into between the Company and the relevant service provider or any other service agreement to facilitate the acceptance and vesting of RSUs to the grantees from time to time
5.	Vesting	Subject to the terms of the RSU Scheme and the specific terms and conditions applicable to each Award, the RSUs granted in an Award shall be subject to a vesting period, to the satisfaction of performance and/or other conditions to be determined by the Board. If such conditions are not satisfied, the RSU shall be cancelled automatically on the date on which such conditions are not satisfied, as determined by the Board in its absolute discretion
6.	Trustee	The Board has appointed Computershare Hong Kong Trustee Limited on 2 July 2014 as professional trustee to assist with the administration and vesting of RSUs pursuant to the RSU Scheme
7.	Remaining life of the scheme	It shall be valid and effective till 31 August 2023.

For further details of the RSU Scheme, please refer to the section headed "Statutory and General Information" in Appendix IV to the Prospectus and note 24c to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, the percentage of the aggregate revenue attributable to the Group's largest game and five largest games accounted for approximately 14% and 45% of the Group's total revenue, and accounted for approximately 15% and 48% of the Group's product revenue, respectively.

During the year ended 31 December 2016, the percentage of the aggregate revenue attributable to the Group's largest game licensor and five largest game licensors accounted for approximately 1% and 4% of the Group's total revenue, respectively.

During the year ended 31 December 2016, the percentage of the aggregate revenue attributable to the Group's largest publishing partner and five largest publishing partners accounted for approximately 10% and 34% of the Group's total revenue, respectively.

During the year ended 31 December 2016, the percentage of the aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 16% and 53% of the Group's cost of revenue, respectively.

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

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

At the Company's annual general meeting held on 24 May 2016, the Shareholders granted a share buy-back mandate to the Board to buy-back Shares (which should not exceed 10% of the issued share capital of the Company as at 24 May 2016) from time to time as the Board thinks fit until the earliest of (i) the conclusion of the next annual general meeting of the Company, (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles to be held, or (iii) the revocation or variation of the authority given under the resolution by an ordinary resolution of the Shareholders in general meeting. Pursuant to such mandate, during the year ended 31 December 2016, the Company bought back a total of 2,395,200 Shares at a consideration of HK$30,812,278 on the Stock Exchange, all of which were cancelled as at 31 December 2016. The bought-backs were effected by the Directors for the enhancement of Shareholders' value. Details of the buy-backs are as follows:

Month of buy-backs	Total number of shares bought back (on the Stock Exchange)	Price per Share Highest (HK$)	Price per Share Lowest (HK$)	Aggregate consideration (HK$)
January 2016	2,395,200	13.00	11.30	30,812,278
	2,395,200			30,812,278

Save as disclosed above, during the year ended 31 December 2016, neither the Company, its subsidiaries, the PRC Operational Entities nor any of their subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2016

There were no material subsequent events during the period from 31 December 2016 to the approval date of the Financial Statements by the Board of Directors on 28 March 2017.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. Save as disclosed in the corporate governance report under this annual report in relation to the deviations from code provision A.2.1 of the CG Code, the Company has complied with the code provisions in the CG Code throughout the year ended 31 December 2016.

PERMITTED INDEMNITY PROVISION

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

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

EQUITY-LINKED AGREEMENTS

Save for the share option schemes and the Restricted Share Unit Scheme as disclosed in this annual report, no equity-linked agreements were entered into during the year ended 31 December 2016 or subsisted at the end of the year of 2016.

AUDITOR

The Financial Statements of the Group for the year ended 31 December 2016 have been audited by PricewaterhouseCoopers, certified public accountants.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 12 May 2017 to Tuesday, 23 May 2017, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote at the Annual General Meeting to be held on Tuesday, 23 May 2017. All transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 11 May 2017.

By order of the Board
WANG Dongfeng
Chairman

Hong Kong, 28 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As the Company continues its transformation from a webgame company to a mobile game company, the Company's revenue contributed by mobile games continued to increase with the percentage of total revenue increasing from approximately 60.5% in 2015 to approximately 63.8% in 2016. In 2016, we have launched 21 games in total, approximately 90% of which were mobile games. The Company generated a total revenue of RMB361.6 million in 2016, which was 29.3% lower than that in 2015. This decrease was primarily due to the fact that several of the Group's key titles, such as "Sword Immortal (劍仙緣)", "Boonie Bears: Homeland Defense (熊出沒之保衛家園)" and "True King (真王)", have entered into the mature stage of their lifecycle and generated less revenue than prior year, while the increase in revenue generated from new games could not fully offset the decrease in revenue generated from the Group's existing key titles.

Revenue generated from the Group's webgames amounted to RMB131.1 million in 2016, representing a decrease of 35.1% compared to that in 2015. This decrease was the direct result of the Group's strategy on producing fewer but higher quality webgames. In 2016, the Company launched two webgames, one of which, namely "Liberators", was designed for overseas markets. "Liberators" is a world-war II themed strategy game which has been launched on Facebook in multiple overseas markets including the United States and Europe. This game was recognised as one of "Facebook's 2016 Best Web Games" in December 2016.

To promote the Group's new games, the Company has incurred selling and marketing expenses of RMB88.8 million in 2016, doubling those incurred in 2015. This increase was primarily due to our heavy investments in promoting Liberators. Also, the administrative expenses of the Group increased by 43.2% to RMB122.0 million in 2016 mainly due to the write-down of prepayments and receivables after assessing the current and/or projected performance of related games as well as the cost of closing down the Group's Taiwan office and the associated assets write-offs.

Forgame's management continues to optimise the Company's operation structure through various cost-cutting measures. The Company has controlled and lowered its headcount level from 596 personnel in 2015 to 399 by the end of 2016. In addition, the costs incurred on research and development decreased by 26.7% in 2016, compared to those in 2015.

Forgame recorded an investment loss of approximately RMB134.1 million in 2016, out of which, approximately RMB22.2 million related to the impairment of investment in the Group's associates, approximately RMB108.1 million related to the impairment of the Group's available-for-sale financial assets, and approximately RMB9.7 million related to other losses, and which was partially offset by approximately RMB2.0 million related to share of income of investments accounted for using the equity method and approximately RMB3.9 million related to gain on dilution of investments accounted for using the equity method. These investment losses were due to a number of factors including but not limited to the volatility of the fund raising market, existing cash availability for the investments, as well as a more prudent assessment of the outlook of the games in the pipelines of the invested game studios.

The following table sets forth certain operating statistics relating to the businesses of the Group as at the dates and in the years presented:

	Year Ended 31 December	
	2016	2015
Game product:		
Average MPUs (in thousands) (1) (2)	**789**	1,006
Monthly ARPPU (RMB)	**35**	39
Game platform:		
Registered players (in thousands)	**227,835**	224,584
Average MPUs (in thousands) (1) (2)	**9**	11
Monthly ARPPU (RMB)	**234**	345

Notes:

(1) The numbers do not eliminate the duplication in paying users of self-developed games published on the Group's own platforms.

(2) The numbers do not include the MPUs of negligible console mobile games.

— **Game product.** The average MPUs for the game product segment decreased to approximately 789 thousand in 2016 from approximately 1,006 thousand in 2015. This decrease was primarily due to the fact that several games, such as "Sword Immortal (劍仙緣)", "Bonnie Bears: Homeland Defense (熊出沒之保衛家園)" and "True King (真王)", have entered into the mature stage of their lifecycles while the new games developed by the Group need time to ramp up and have yet to offset the loss of paying users. Monthly ARPPU level of game product segment remained stable and amounted to RMB35 for the year 2016 as compared with RMB39 for the year ended 2015.

— **Game platform.** Registered players of the Group's game publishing platform *91wan* increased to approximately 228 million as at 31 December 2016 from approximately 225 million as at 31 December 2015. The average MPUs of the Group for the game platform segment decreased to approximately 9 thousand in 2016 from approximately 11 thousand in 2015, and the monthly ARPPU of the game platform segment has decreased to RMB234 for 2016 from RMB345 for 2015. The decrease in average MPUs and monthly ARPPU was primarily due to the Group's strategy to scale back webgame player acquisitions in order to maintain a positive return on investment for our webgame publishing business.

The following table sets forth the Group's income statement for the year ended 31 December 2016 as compared to the year ended 31 December 2015:

	Year Ended 31 December		
	2016	2015	Change
	(RMB'000)	(RMB'000)	%
Revenue	**361,564**	511,539	-29.3%
Cost of revenue	**(289,015)**	(340,125)	-15.0%
Gross profit	**72,549**	171,414	-57.7%
Selling and marketing expenses	**(88,820)**	(40,684)	118.3%
Administrative expenses	**(121,983)**	(85,176)	43.2%
Research and development expenses	**(96,476)**	(131,562)	-26.7%
Other income	**11,787**	41,582	-71.7%
Other losses	**(14,246)**	(15,352)	-7.2%
Finance income-net	**8,701**	8,562	1.6%
Gain on dilution of investments accounted for using the equity method	**3,907**	1,333	193.1%
Share of income/(loss) of investments accounted for using the equity method	**2,047**	(13,880)	-114.7%
Impairment of investment in associates	**(22,219)**	(19,418)	14.4%
Impairment of available-for-sale financial assets	**(108,063)**	(35,521)	204.2%
Impairment loss on intangible assets and property and equipment	**(30,198)**	(5,774)	423.0%
Loss before income tax	**(383,014)**	(124,476)	207.7%
Income tax expense	**(13,478)**	(5,145)	162.0%
Loss for the year	**(396,492)**	(129,621)	205.9%

Revenue. Revenue decreased by 29.3% to RMB361.6 million for the year ended 31 December 2016 from RMB511.5 million for the year ended 31 December 2015. The following table sets forth the revenue of the Group by segment for the years ended 31 December 2016 and 2015:

	Year Ended 31 December			
	2016		2015	
	(RMB'000)	**(% of Total Revenue)**	(RMB'000)	(% of Total Revenue)
Revenue by Segment				
– Game product	**335,648**	**92.8**	468,086	91.5
– Game platform	**25,916**	**7.2**	43,453	8.5
Total Revenue	**361,564**	**100.0**	511,539	100.0
Revenue by Game Type				
– Mobile games	**230,508**	**63.8**	309,724	60.5
– Webgames	**131,056**	**36.2**	201,815	39.5
Total Revenue	**361,564**	**100.0**	511,539	100.0

— Revenue generated from the Group's game product segment decreased by approximately 28.3% to RMB335.6 million for the year ended 31 December 2016 from RMB468.1 million for the year ended 31 December 2015. This decrease was primarily due to the fact that some of the Group's key games have entered into the mature stage of their lifecycles and generated less revenue than prior year, while the increase in revenue generated from the Group's new games could not fully offset the decrease in revenue. Further, although we experienced delay in the launch of some of our titles in order to optimise the performance of the relevant games, we managed to execute the mobile game strategy and launched 21 major games[(1)] to the market. Revenue generated from the Group's game platform segment decreased by approximately 40.4% to RMB25.9 million for the year ended 31 December 2016 from RMB43.5 million for the year ended 31 December 2015. The decline in revenue from the game platform segment was mainly due to the scaling back in the Group's webgame publishing business.

— Revenue generated from the Group's mobile games decreased by approximately 25.6% to RMB230.5 million for the year ended 31 December 2016 from RMB309.7 million for the year ended 31 December 2015. This decrease was mainly due to a few of our key mobile titles, such as "Boonie Bears (熊出沒)" series and "Sword Immortal (劍仙緣)", having entered the mature stage of their lifecycles and generated less revenue this year. Revenue generated from the Group's webgames decreased by approximately 35.1% to RMB131.1 million for the year ended 31 December 2016 from RMB201.8 million for the year ended 31 December 2015. This decrease was in line with the Group's expectation as the Group shifts its business focus from webgames to mobile games. This transition resulted in the reduction in the number of new webgames that the Group has launched and operated in 2016.

Note:

(1) Number of games launched excludes games introduced to the market for early-stage testing purpose.

Cost of revenue. Cost of revenue decreased by 15.0% to RMB289.0 million for the year ended 31 December 2016 from RMB340.1 million for the year ended 31 December 2015. For the year ended 31 December 2016, the percentage of cost of revenue to total revenue increased to 79.9% (2015: 66.5%). The following table sets forth the cost of revenue of the Group by segment for the years ended 31 December 2016 and 2015:

	Year Ended 31 December			
	2016		2015	
	(RMB' 000)	**(% of Total Cost of Revenue)**	(RMB' 000)	(% of Total Cost of Revenue)
Cost of Revenue by Segment				
– Game product	**283,768**	**98.2**	327,444	96.3
– Game platform	**5,247**	**1.8**	12,681	3.7
Total Cost of Revenue	**289,015**	**100.0**	340,125	100.0

— Cost of revenue in respect of the Group's game product segment decreased by 13.3% to RMB283.8 million for the year ended 31 December 2016 from RMB327.4 million for the year ended 31 December 2015. This decrease was mainly due to lower content costs and revenue sharing costs of self-developed mobile games for the year ended 31 December 2016 compared to the year ended 31 December 2015 as some of the Group's key mobile titles, such as "Boonie Bears (熊出沒)" series and "Sword Immortal (劍仙緣)", having entered the mature stage of their lifecycles and generated less revenue during the year.

— Cost of revenue in respect of the Group's game platform segment decreased by 58.6% to RMB5.2 million for the year ended 31 December 2016 from RMB12.7 million for the year ended 31 December 2015. This decrease was primarily due to the intended scaling back of the webgame publishing business and the ongoing effort of the Group to optimise the return on investment and profitability of *91wan*.

Selling and marketing expenses. Selling and marketing expenses increased by 118.3% to RMB88.8 million for the year ended 31 December 2016 from RMB40.7 million for the year ended 31 December 2015. This increase was mainly attributable to the increase in the promotion and advertising expenses of the Group in respect of its new games. In particular, "Liberators", the Group's new overseas webgame title, had incurred approximately RMB69.4 million marketing costs in 2016.

Administrative expenses. Administrative expenses increased by 43.2% to RMB122.0 million for the year ended 31 December 2016 from RMB85.2 million for the year ended 31 December 2015. This increase was mainly due to (i) one-off losses relating to the write-down of prepayments and receivables after assessing the current and/or projected games' performance and suitability pursuant to the Company's strategy of focusing resources on developing casual games and refraining from investing resources into new PRC hard-core games, and (ii) costs of closing down the Group's Taiwan office and the associated asset write-offs.

Research and development expenses. Research and development expenses decreased by 26.7% to RMB96.5 million for the year ended 31 December 2016 from RMB131.6 million for the year ended 31 December 2015. This decrease was primarily due to the ongoing effort of the Group to optimise its research and development capability, as well as the reduction in the research and development expenses of the Group's webgames due to the strategic transition of the Group's business focus from webgames to mobile games.

Other income. Other income decreased by 71.7% to RMB11.8 million for the year ended 31 December 2016 from RMB41.6 million for the year ended 31 December 2015. This decrease was mainly due to the conversion of a significant amount of Group's bank deposits from RMB into USD, in order to preserve the Group's purchasing power in light of RMB exchange rate fluctuations, which however resulted in a lower interest rate.

Other losses. Other losses decreased by 7.2% to RMB14.2 million for the year ended 31 December 2016 from RMB15.4 million for the year ended 31 December 2015. The other losses in 2016 included (i) a RMB9.7 million fair value loss as a result of the change in the value of financial assets at fair value through profit or loss, and (ii) a RMB3.4 million loss as a result of the disposal of property and equipment mainly due to the disposal of redundant servers in order to improve operational efficiency.

Finance income-net. Finance income-net primarily consists of the interest income from short-term bank deposits. The finance income-net of the Group remained stable and amounted to RMB8.7 million (2015: RMB8.6 million). As part of the Group's cash management strategy, the Company monitors the RMB interest rate movements and re-evaluates its cash management strategy from time to time to best utilise the available cash on hand.

Gain on dilution of investments accounted for using the equity method. Gain on dilution of investments accounted for using the equity method increased by 193.1% to RMB3.9 million for the year ended 31 December 2016 from RMB1.3 million for the year ended 31 December 2015. This increase was mainly due to the increase of valuation of investments as a result of the fund raising activities carried out by investees. For details of fund raising gain, please refer to note 11b(b)(i) to the Financial Statements.

Share of income/(loss) of investments accounted for using the equity method. Share of income of investments accounted for using the equity method for the year ended 31 December 2016 was RMB2.0 million, as compared to a loss of RMB13.9 million for the year ended 31 December 2015. This gain reflected the improved financial and operational performance of the Group's investee companies. Some of the Group's investee companies had recorded positive profit before tax or had narrowed the loss compared to the previous year.

Impairment of investment in associates and impairment of available-for-sale financial assets. Impairment of investment in associates and impairment of available-for-sale financial assets for the year ended 31 December 2016 was RMB22.2 million and RMB108.1 million respectively, which represented the provision for impairment loss in respect of some of our angel investments after reviewing a majority of the investments in the Group's investment portfolio (the "Reviews") with the help of a third party consultant. The Reviews involved performing overall assessment on whether there were impairment indicators, taking into account the overall market condition in the PRC in relation to fund raising activities for the mobile gaming sector and product-potential analysis of their key products. For details of the Reviews, please also refer to the Company's announcements dated 24 May 2016 and 11 November 2016.

According to the Reviews, the PRC fund raising market for small gaming studios and/or angel investments continued to be challenging. In particular, the operations of such investments heavily relied on continuous funding, and their performance might be less predictable and typically depended on their ability to attract more rounds of funding as a result. After considering the findings of the Reviews, the Group performed comprehensive assessments on the investments and made a provision for impairment loss on those investments which displayed impairment indicators, taking into account, inter alia, delay in the launch of key products, adverse performance of key products launched and/or in development, further fund raising probability and adverse change in overall financial performance. The Group adopted discounted cash flow ("DCF") under the income approach to determine the investments' fair value, which was used in the measurement of available-for-sale financial assets and assessment of the recoverable amount of investments in associates. The key assumptions used in the DCF include the investees' long term revenue growth rates, long-term pre-tax operating margin, and the discount rate. For details of the critical accounting estimates and judgments involved, please refer to note 4 to the Financial Statements. For further details of the impairment of investment in associates and the impairment of available-for-sale financial assets, please refer to note 11b(a) and note 18 to the Financial Statements, respectively.

Impairment loss on intangible assets and property and equipment. Impairment loss on intangible assets and property and equipment increased by 423.0% to RMB30.2 million for the year ended 31 December 2016 from RMB5.8 million for the year ended 31 December 2015. This increase was primarily caused by the expected write-down of PRC hard-core game intellectual property licence fees resulting from a strategic repositioning plan with the aim of focusing the Group's resources on developing casual games and refraining from investing resources into new PRC hard-core games.

Income tax expense. Income tax expense increased by 162.0% to RMB13.5 million for the year ended 31 December 2016 from RMB5.1 million for the year ended 31 December 2015. This increase primarily reflected the write-offs of certain deferred tax assets previously recognised which the Board considered unlikely to be utilised in the future.

Loss for the year. As a result of the foregoing, the loss for the year ended 31 December 2016 was RMB396.5 million (including the provision for investment and impairment loss of approximately RMB134.1 million), as compared to the loss of RMB129.6 million for the year ended 31 December 2015. The increase in loss for the year (excluding provision for investment and impairment loss) was primarily due to decrease in revenue, increase in marketing and promotion expenses and certain one-off exceptional losses (such as impairment loss on intangible assets and the write down of prepayments and receivables, etc.) resulting from a strategic repositioning plan with the aim of focusing the Group's resources on developing casual games and refraining from investing resources into new PRC hard-core games. However, the Group had managed to control the operating costs and expenses at a reasonable level and optimise the Group's research and development capability.

NON-IFRSS MEASURES-ADJUSTED NET LOSS AND ADJUSTED EBITDA

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

The following tables set forth the reconciliation of the Group's non-IFRS financial measures for the years ended 31 December 2016 and 2015, to the nearest measures prepared in accordance with IFRSs:

	Year Ended 31 December	
	2016	2015
	(RMB'000)	(RMB'000)
Loss for the year	**(396,492)**	(129,621)
Add:		
Share-based compensation	**16,272**	9,592
Changes in the value of financial assets at fair value through profit or loss	**9,791**	6,323
Loss on disposal of a subsidiary	**—**	5,958
Impairment of investment in associates	**22,219**	19,418
Impairment of available-for-sale financial assets	**108,063**	35,521
Adjusted net loss (unaudited)	**(240,147)**	(52,809)
Add:		
Depreciation and amortisation	**34,556**	49,339
Net interest income	**(15,700)**	(40,350)
Income tax expense	**13,478**	5,145
Adjusted EBITDA (unaudited)	**(207,813)**	(38,675)

FINANCIAL POSITION

As at 31 December 2016, the total equity of the Group amounted to RMB1,058.1 million, compared to RMB1,444.7 million as at 31 December 2015. This decrease was mainly due to the increase in accumulated losses as discussed in the above paragraphs.

The Group's net current assets amounted to RMB665.1 million as at 31 December 2016, compared to RMB1,165.2 million as at 31 December 2015. This decrease was primarily due to (i) the decrease in cash and cash equivalents resulted from the convertible bonds investment payment to INK, details of which are set out in the paragraph headed "Significant Investments" in this section, and (ii) the decrease in receivables and prepayment balance as a result of the strategic repositioning plan with the aim of prioritising the Group's resources on developing casual games over new PRC hard-core games.

LIQUIDITY AND FINANCIAL RESOURCES

	Year Ended 31 December	
	2016	2015
	(RMB' 000)	(RMB' 000)
Cash at bank and on hand	**264,123**	916,095
Cash at other financial institutions	**3,863**	11,034
Short-term deposits	**448,997**	200,000
Total	**716,983**	1,127,129

The total cash, cash equivalent and short-term deposits of the Group amounted to RMB717.0 million as at 31 December 2016, compared to RMB1,127.1 million as at 31 December 2015. This decrease was primarily due to the convertible bonds investment payment to INK, details of which are set out in the paragraph headed "Significant Investments" below, and share buy-backs in 2016.

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

As at 31 December 2016, the Group's gearing ratio (calculated by bank borrowing divided by total assets) was nil (as at 31 December 2015: nil), which means it did not have any bank borrowing balance as at 31 December 2016. The borrowing requirements of the Group are not subject to seasonality.

SIGNIFICANT INVESTMENTS

Subscription of Convertible Bonds

On 3 August 2016, the Company entered into an investment agreement with INK pursuant to which the Company agreed to subscribe for, and INK agreed to issue, the convertible bonds (the "Convertible Bonds") in the aggregate principal amount of RMB300,000,000 (the "Subscription"). The Subscription was completed on 27 September 2016.

Assuming the conversion rights attaching to the Convertible Bonds and the accrued interest are exercised in full upon maturity of the Convertible Bonds at the initial conversion price of RMB0.7448 per conversion share, up to a total of 474,411,730 conversion shares will be allotted and issued by INK, representing approximately 15.01% of the issued share capital of INK as at 3 August 2016 and the Latest Practicable Date (on an as-converted and fully diluted basis, but without taking into account any potential dilution effect resulting from the additional shares reserved for issue under the employee stock ownership plan adopted by INK).

INK Group, a top five PRC internet financing platform by transaction volume, is based in Beijing and primarily provides an online credit marketplace in the PRC to match borrowers with private lenders through the internet. INK Group's platform provides borrowers with various financing solution products, and at the same time provides private lenders with a number of products comprising of housing loans, automobile loans, and consumer loans.

For further details and information of the Subscription, please refer to the announcements of the Company dated 3 August 2016 and 27 September 2016.

FOREIGN EXCHANGE RISK

As at 31 December 2016, RMB345.7 million of the financial resources of the Group (2015: RMB25.0 million) were held in deposits denominated in non-RMB currencies. The increase in the deposits denominated in non-RMB currencies was due to the conversion of a significant amount of the Group's bank deposits from RMB into USD to support the Group's international operations and preserve the Group's purchasing power in light of the recent RMB exchange rate fluctuations. With a significant amount of deposits denominated in USD and in view of potential RMB exchange rate fluctuations, the Group will continue to monitor foreign exchange rate changes to best preserve the Group's cash value.

CAPITAL EXPENDITURES

	Year Ended 31 December	
	2016	2015
	(RMB' 000)	(RMB' 000)
Capital expenditures		
– Purchase of property and equipment	**971**	2,561
– Purchase of intangible assets	**9,909**	22,392
Total	**10,880**	24,953

Capital expenditures comprise of the purchase of property and equipment, such as servers and computers, and purchase of intangible assets, such as IP adaptation rights and IP rights of games developed by third-party developers. The total capital expenditures were RMB10.9 million and RMB25.0 million for the years ended 31 December 2016 and 2015, respectively. The decrease of RMB14.1 million in total capital expenditures reflected a lower purchasing level of property and equipment and a decrease in the leasehold improvement for PRC Operational Entities' offices and intangible assets. The Group has less property and equipment purchase requirements for the year ended 31 December 2016 because the property and equipment purchases made prior to 2016 sufficiently supported its business growth. The purchase of intangible assets decreased in 2016 because the licensing rights for several third party mobile games as well as the adaptation rights of several popular intellectual properties acquired prior to 2016 successively supported the game publishing and game development of the Group in 2016.

Pledge of Asset

As at 31 December 2016, the Group had a pledge of assets of RMB0.8 million (as at 31 December 2015: RMB0.7 million) as restricted cash for corporate credit card deposits.

Contingent Liabilities

As at 31 December 2016, the Group did not have any significant unrecorded contingent liabilities.

Human Resources

As at 31 December 2016, the Group had 399 full-time employees, the vast majority of whom were based in Guangzhou. As the Group continued its transition from a webgame business to a mobile game business, the management has actively monitored human resources costs and made headcount adjustments. As a result, the Group had a net decrease of 197 employees in 2016. The following table sets forth the number of employees by function as at 31 December 2016:

	Number of Employees	% of Total
Game Development	198	50%
Publishing	47	12%
Sales and Marketing	21	5%
General and Administration	133	33%
Total	399	100%

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

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

POST BALANCE SHEET EVENT

There were no material subsequent events during the period from 31 December 2016 to the approval date of the Financial Statements by the Board of Directors on 28 March 2017.

TRANSFORMATION PLAN: RISKS AND HURDLES

As Forgame continues its transition from a webgame company to a mobile game company, especially operating under a competitive and dynamic gaming market in China, there are execution risks that could adversely affect the Company's operations and financials. The major hurdles include (i) delays of game launches, (ii) games developed not able to meet market expectation at launch, (iii) departure of major employees, and (iv) technical issues that hamper the Group's ability to collect fees, data, and update games, all of which will negatively affect the Group's revenue. In addition, the Group is exposed to risks such as fluctuation of foreign exchange, impairment charge due to invested companies' and/or financial instrument's underperformance or becoming insolvent, and other unexpected one-off restructuring costs, all of which will negatively impact the Group's net profit.

Since 2014, the Group have made investments in a number of mobile game studios and incubators in China with a remaining value of approximately RMB52.6 million post investment impairment and losses in 2016, out of which approximately RMB23.6 million were classified as "investments in associates". These investments are mostly angel investments and during the development phase do not generate meaningful revenue and profit. Similar to most angel investments, it is difficult to determine the success of these investments in the early stage, and while successful investments could generate substantial returns, unsuccessful ones may need to be impaired or written off.

FUTURE PLANS

The Group is evaluating investment opportunities across various parts of the internet, media, and technology industry using the net proceeds from the Placing, and/or the general working capital of the Group with the aim of building an ecosystem that would drive organic growth. Going forward, the Group will also look beyond the gaming space and diversify into the broader internet and pan-entertainment investment opportunities that can drive higher growth and profitability for the Group.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

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

Save as disclosed in this Corporate Governance Report in relation to the deviations from code provision A.2.1 of the CG Code, the Directors consider that the Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2016.

A. The Board

1. *Roles and Responsibilities of the Board*

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

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

– approval and monitoring of all major policies of the Group;

– overall strategies and budgets;

– internal control and risk management systems;

– notifiable and connected transactions;

– nomination of directors and company secretary; and

– other significant financial and operational matters.

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

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

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

2. *Delegation of Management Function*

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

– execution of overall strategies adopted by the Board;

– monitoring of budgets adopted by the Board;

– implementation of internal control and risk management systems; and

– preparation of the annual and interim reports for Board approval.

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

3. *Board Composition*

As at 31 December 2016 and the Latest Practicable Date, the Board consisted of six directors, two of whom were Executive Directors, one of whom was a Non-executive Director and three of whom were Independent Non-executive Directors. Mr. TUNG Hans retired as Non-executive Director with effect from 24 May 2016. Ms. LIANG Na was appointed as Executive Director with effect from 24 May 2016. Mr. ZHANG Qiang was appointed as a Non-executive Director with effect from 24 May 2016.

During the year ended 31 December 2016 and up to the Latest Practicable Date, the Board comprised the following Directors:

Executive Directors	Mr. WANG Dongfeng *(Chairman and Chief Executive Officer)* Ms. LIANG Na *(appointed with effect from 24 May 2016)*
Non-executive Director	Mr. ZHANG Qiang *(appointed with effect from 24 May 2016)* Mr. TUNG Hans *(retired with effect from 24 May 2016)*
Independent Non-executive Directors	Mr. HOW Sze Ming *(appointed with effect from 1 January 2016)* Mr. LEVIN Eric Joshua *(resigned with effect from 1 January 2016)* Ms. POON Philana Wai Yin Mr. ZHAO Cong Richard

Biographies of the Directors are set out on pages 63 to 67 of this annual report.

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

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

During the year ended 31 December 2016, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board and at least one Independent Non-executive Director possesses appropriate professional qualifications, or accounting or related financial management expertise.

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

4. *Appointment and re-election of directors*

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

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

None of the Directors has a service contract or an appointment letter which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

5. *Induction and Continuing Development for Directors*

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

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

For the year ended 31 December 2016, each of Directors (namely, Mr. WANG Dongfeng, Ms. LIANG Na, Mr. ZHANG Qiang, Mr. HOW Sze Ming, Ms. POON Philana Wai Yin and Mr. ZHAO Cong Richard) has attended training sessions arranged by the Group's legal advisers relating to corporate governance and continuing obligations of listed companies and its directors.

On top of the above-mentioned trainings, the chairman and chief executive officer (namely, Mr. WANG Dongfeng) and members of the senior management have also attended several presentations organised by the Group on case studies relating to compliance of listed companies.

6. *Directors liability insurance*

The Company has always been in strict compliance with the principles and requirements of the Listing Rules. As at 31 December 2016, the Company was not involved in any material litigation liable by any Director. Each Director has the necessary qualification and experience required for performing his duty. The Company estimates that in the reasonably foreseeable future, there is little risk that there would be any material event for which any Director shall take significant responsibility. Notwithstanding the above, the Company has arranged for appropriate directors' and officers' liability insurance in respect of legal action against the Directors.

7. *Board Meetings and General Meetings*

Number of Meetings and Directors' Attendance

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

The Board held four regular Board meetings during the year ended 31 December 2016 for discussing the Group's affairs, reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Group. In total, the Board held eight Board meetings during the year ended 31 December 2016.

The attendance records of each Director at the Board meetings and general meeting (whether in person or by means of electronic communication) held during the year ended 31 December 2016 are set out below:

Name of Director	Board Meetings	General meeting
Mr. WANG Dongfeng *(Chairman and Chief Executive Officer)*	8/8	1/1
Ms. LIANG Na *(appointed with effect from 24 May 2016)*	5/5	1/1
Mr. TUNG Hans *(retired with effect from 24 May 2016)*	1/3	0/1
Mr. ZHANG Qiang *(appointed with effect from 24 May 2016)*	4/5	0/0
Mr. HOW Sze Ming	8/8	1/1
Ms. POON Philana Wai Yin	8/8	1/1
Mr. ZHAO Cong Richard	7/8	1/1

Practices and Conduct of Meetings

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

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

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

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

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

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

B. Chairman and Chief Executive

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

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

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

C. Board Committees

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

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

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

1. *Remuneration Committee*

We have established the Remuneration Committee with written terms of reference in compliance with paragraph B.1 of the CG Code. During the year ended 31 December 2016, the Remuneration Committee comprised three members, of whom two were Independent Non-executive Directors and one was Non-executive Director:

Mr. ZHAO Cong Richard *(Chairman)*
Mr. HOW Sze Ming
Mr. ZHANG Qiang *(appointed with effect from 24 May 2016)*
Mr. TUNG Hans *(retired with effect from 24 May 2016)*

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

The Remuneration Committee held one meeting during the year ended 31 December 2016 to, inter alia, (i) review the remuneration policy and structure, (ii) assess performance of the Executive Director and approve the terms of the service contract, (iii) make recommendations to the Board on determining the annual remuneration packages of the Directors and the senior management, (iv) make recommendations to the Board on the granting of share options pursuant to the Post IPO Share Option Scheme and RSUs pursuant to the Restricted Share Unit Scheme of the Company, and (v) deal with other matters related to the foregoing.

The attendance records of the Remuneration Committee held during the year ended 31 December 2016 are set out below:

Committee members	**Meeting attended/Total**
Mr. ZHAO Cong Richard *(Chairman)*	1/1
Mr. TUNG Hans *(retired with effect from 24 May 2016)*	1/1
Mr. ZHANG Qiang *(appointed with effect from 24 May 2016)*	0/0
Mr. HOW Sze Ming	1/1

Please refer to note 35 to the Financial Statements for the remuneration of the senior management by band.

2. *Audit and Compliance Committee*

We have established the Audit and Compliance Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 as well as paragraph D.3 of the CG Code. During the year ended 31 December 2016, the Audit and Compliance Committee comprised three non-executive members, of whom two were Independent Non-executive Directors and one was Non-executive Director:

Mr. HOW Sze Ming *(Chairman)*
Ms. POON Philana Wai Yin
Mr. Mr. ZHANG Qiang *(appointed with effect from 24 May 2016)*
Mr. TUNG Hans *(retired with effect from 24 May 2016)*

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

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

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

The Audit and Compliance Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to risk management and internal control systems and financial reporting function with the management. The Audit and Compliance Committee considers that the annual financial results for the year ended 31 December 2016 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

The Audit and Compliance Committee held three meetings during the year ended 31 December 2016 to, inter alia, (i) review the interim and annual financial results and reports, financial reporting and compliance procedures, the report of the internal auditor on the Group's internal control, (ii) review the Company's corporate governance policies and practices (including but not limited to training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code), (iii) review the risk management and internal control systems of the Group, (iv) review the effectiveness of the internal audit function systems of the Group, (v) the re-appointment of the external auditors, and (vi) deal with other matters related to the foregoing.

The attendance records of the Audit and Compliance Committee held during the year ended 31 December 2016 are set out below:

Committee members	**Meetings attended/Total**
Mr. HOW Sze Ming *(Chairman)*	3/3
Mr. TUNG Hans *(retired with effect from 24 May 2016)*	1/1
Mr. ZHANG Qiang *(appointed with effect from 24 May 2016)*	2/2
Ms. POON Philana Wai Yin	3/3

The Group's annual results for the year ended 31 December 2016 and this corporate governance report have been reviewed by the Audit and Compliance Committee on 28 March 2017.

3. *Nomination Committee*

We have established the Nomination Committee with written terms of reference in compliance with paragraph A.4 of the CG Code. During the year ended 31 December 2016, the Nomination Committee comprised three members, of whom two were Independent Non-executive Directors and one was Executive Director:

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

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

The Nomination Committee held one meeting during the year ended 31 December 2016 to, inter alia, (i) review the size and composition of the Board or identify any new Board member, (ii) review and assess the policy for the nomination of Directors and the board composition with reference to the board diversity policy of the Company, a summary of which is set out in the paragraph headed "Summary of the board diversity" in this Corporate Governance Report, and (iii) discuss other matters related to the foregoing.

The attendance records of the Nomination Committee held during the year ended 31 December 2016 are set out below:

Committee members	Meeting attended/Total
Mr. WANG Dongfeng *(Chairman)*	1/1
Ms. POON Philana Wai Yin	1/1
Mr. ZHAO Cong Richard	1/1

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

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

Summary of the board diversity policy

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

D. Model Code for Securities Transactions

The Company has adopted the code of conduct and procedures governing Directors' securities transactions in stringent compliance with the Model Code. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2016.

E. Directors' Responsibilities for Financial Reporting

The Directors acknowledge their responsibility for preparing the Financial Statements of the Group and the Company for the year ended 31 December 2016.

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

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

F. External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the Financial Statements is set out in the "Independent Auditor's Report" from pages 68 to 74 of this annual report.

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

For the year ended 31 December 2016, the fees paid/payable to PricewaterhouseCoopers for the audit service are RMB4.5 million.

Fees paid/payable to PricewaterhouseCoopers for non-audit services provided to the Group for the year was RMB1.0 million. The non-audit services mainly include professional service on due diligence for investment and internal controls of the Group.

G. Risk Management and Internal Control

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

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

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

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

During the year ended 31 December 2016, the Board has reviewed of the effectiveness of the risk management and internal control systems of the Group. The review has covered the financial, operational and compliance and risk management aspects of the Group's risk management and internal control systems implemented in the year ended 31 December 2016. The review included discussions with the management of the Company, its external and internal auditors and the review was performed by the Audit and Compliance Committee. The review results have been reported to the Board. The Board is satisfied that such systems are effective and adequate. In addition, the Board has also reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting functions. The Board has also received a confirmation from the management that the Company's risk management and internal control systems are adequate and effective.

H. Framework for Disclosure of Inside Information

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

CORPORATE GOVERNANCE REPORT

I. Internal Audit

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

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

J. Communications with Shareholders and Investors

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

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

At the annual general meeting of the Company held on 24 May 2016, a resolution was proposed by the Chairman in respect of each separate issue itemised on the agenda, including re-election of retiring directors. Procedures for conducting a poll were explained by the chairman at the meeting. The Chairman of the Board and the chairman of each of the board committees were present to answer questions from shareholders. Representatives from external auditors had also attended the annual general meeting of the Company held on 24 May 2016. All resolutions were voted by way of poll. The Company appointed the branch share registrar of the Company to act as scrutineers and to ensure votes cast were properly counted and recorded, and announced the results of the poll on the websites of the Stock Exchange and the Company in accordance with the Articles and the Listing Rules. No other general meeting was held by the Company during the year under review.

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

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

K. Shareholder Rights

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

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

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

All resolutions put forward at a general meeting will be taken by poll pursuant to the Listing Rules.

In addition, the poll results will be posted on the websites of the Company and the Stock Exchange after the Shareholders' meeting.

During the year ended 31 December 2016, there was no change in the constitutional documents of the Company. The latest version of the Company's Articles is available on the websites of the Company and the Stock Exchange.

L. Company Secretary

Ms. LU Feinan was appointed by the Board as the company secretary of the Company with effect from 4 January 2017 while Mr. LAW Yat Yang Arthur resigned as the company secretary of the Company with effect from 4 January 2017.

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

For the financial year ended 31 December 2016, Mr. Law had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management of the Company as at 31 December 2016 and up to the Latest Practicable Date were:

DIRECTORS

Executive Directors

Mr. WANG Dongfeng *(Chairman and Chief Executive Officer)*
Ms. LIANG Na *(appointed with effect from 24 May 2016)*

Non-executive Director

Mr. ZHANG Qiang *(appointed with effect from 24 May 2016)*

Independent Non-executive Directors

Mr. HOW Sze Ming
Ms. POON Philana Wai Yin
Mr. ZHAO Cong Richard

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

BIOGRAPHICAL DETAILS OF DIRECTORS

WANG Dongfeng, aged 40, co-founded the Group in September 2009 and was appointed as the Chairman and Executive Director on 26 July 2011. Since Mr. Wang acquired interests in Feiyin and Weidong, he has been involved in the Group's management in the capacity as a shareholder by making important management decisions. Mr. Wang has also been Chief Executive Officer of the Company since July 2011 and was appointed as the Company's authorised representative on 4 February 2013. He is responsible for the overall corporate development and strategic management of the Group's business and participates in making the Group's key strategic and operational decisions. In addition, Mr. Wang also sits on the boards of various companies within the Group, including acting as chairman of Foga Tech since August 2011. He also has been serving as executive director of the PRC Operational Entities, namely Feiyin and Weidong since May 2011 and Jieyou since June 2012 where he is mainly responsible for overseeing the overall development of the companies and formulating corporate and business strategies.

Mr. Wang has more than 16 years of experience in technology-oriented companies. From January 2005 to October 2008, he was the chief executive officer of ZCOM (北京智通無限科技有限公司) where he was responsible for carrying out the strategies and policies established by ZCOM. Prior to that, he was also the business director of Beijing Feixing Network Music Software Development Co., Ltd from April 2000 to August 2004 where he was involved in the operations of the business.

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

DIRECTORS AND SENIOR MANAGEMENT

LIANG Na, aged 36, was appointed as an Executive Director on 24 May 2016. Ms. Liang was appointed as the chief financial officer of the Group with effect from 1 November 2014. She has held various key roles within the Group (including vice president and director of finance of the Group) and has over 13 years of financial management experience in both traditional and technology sectors. Prior to joining the Group in June 2011 as director of finance, she was employed by Digital China Holdings Limited, a company whose shares are listed on the main board of the Stock Exchange (Stock Code: 00861) from January 2005 to June 2011 and took up the role of director of finance within the supply chain business unit.

Ms. Liang is responsible for overseeing the Group's financial management, corporate finance, budget implementation, investor relations, as well as managing the Group's support functions. She is assisted by the deputy chief financial officer of the Group, who mainly focuses on the Group's corporate finance and investor relations.

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

ZHANG Qiang, aged 41, was appointed as the Non-executive Director on 24 May 2016. Mr. Zhang is currently a vice president of Unisplendour Technology (Holdings) Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 00365).

Mr. Zhang was a vice president (Corporate Finance) of TPV Technology Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 00903), and was responsible for corporate finance activities, investors relations and public relations. Mr. Zhang was the managing director of China Great Wall Computer (Hong Kong) Holding Limited from March 2004 to January 2015, a vice president of investment and overseas business of China Great Wall Computer Shenzhen Company Limited (a company whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000066.sz)) from July 2007 to January 2015, the chairman secretary of Great Wall Technology Company Limited from April 2002 to February 2004, the CEO assistant and company secretary of HiChina Web Solution Company Limited from June 2001 to January 2002 and a project manager of importation of Poly Technology Inc. Ltd. from July 1998 to May 2001.

Mr. Zhang graduated from the University of International Business and Economics with a bachelor degree in economics, followed by a master degree in business administration at China Europe International Business School.

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

HOW Sze Ming, aged 40, was appointed as an Independent Non-executive Director on 1 January 2016.

Mr. How has over 16 years of experience in investment banking and business assurance industries. From September 1999 to July 2002, Mr. How worked as a senior associate in the Assurance and Business Advisory Department of PricewaterhouseCoopers and was primarily responsible for assurance and business advisory work. From July 2002 to June 2003, he worked as a corporate finance executive of Tai Fook Securities Company Limited (now known as Haitong International Securities Company Limited), a company which was principally engaged in securities broking, securities dealing and leveraged foreign exchange trading, where he was responsible for corporate finance advisory work. From July 2003 to December 2004, Mr. How worked as an assistant manager at Tai Fook Capital Limited (now known as Haitong International Capital Limited), a company principally engaged in corporate finance advisory services, where he was responsible for corporate finance advisory work. From December 2004 to May 2006, he worked as an assistant vice president of CCB International Capital Limited, a company principally engaged in securities advisory, securities dealing and corporate finance advisory, where he was responsible for corporate finance advisory work. From June 2006 to March 2009, Mr. How worked as an assistant vice president in the Investment Banking Division of ICEA Capital Limited, a company principally engaged in dealing in securities and corporate finance advisory services, where he was responsible for corporate finance advisory work. From April 2009 to February 2010, he worked as an assistant vice president in the Investment Banking Division of ICBC International Holding Limited, a company principally engaged in investment banking, where he was responsible for corporate finance advisory work. From February 2010 to June 2015, Mr. How was a managing director of the Investment Banking Department of CMB International Capital Corporation Limited, a company principally engaged in investment banking, securities brokerage and asset management, where he was responsible for corporate finance advisory work. From July 2015 to January 2016, Mr. How was a managing director of Zhaobangji International Capital Limited, a company principally engaged in investment banking and advisory services, where he is responsible for corporate finance advisory work.

Mr. How joined Southwest Securities (HK) Capital Limited ("Southwest Securities"), a company principally engaged in investment banking and advisory services, in February 2016 and is currently a managing director and co-head of investment banking where he is responsible for corporate finance advisory work. Southwest Securities is an indirect wholly-owned subsidiary of Southwest Securities International Securities Limited, a company whose shares are listed on the main board of the Stock Exchange (Stock Code: 00812). Mr. How was an independent non-executive director of (i) QPL International Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 00243) from September 2013 to September 2016 and (ii) Odella Leather Holdings Limited, a company whose shares are listed on the Growth Enterprise Market of the Stock Exchange ("GEM") (Stock Code: 08093) from January 2015 to March 2017. Mr. How has been an independent non-executive director of World-Link Logistics (Asia) Holding Limited, a company whose shares are listed on GEM (Stock Code: 08012), since December 2015. Save as disclosed above, Mr. How has not held any directorships in other listed public companies in the past three years.

Mr. How graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree (first class honour, majoring in professional accountancy) in December 1999. By profession, he is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants.

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

DIRECTORS AND SENIOR MANAGEMENT

POON Philana Wai Yin, aged 49, was appointed as an Independent Non-executive Director on 1 September 2013.

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

Ms. Poon obtained a Bachelor of Commerce degree from the University of Toronto in November 1989 and a Doctor of Law degree from Cornell University in May 1992. Ms. Poon was an independent non-executive director of AZ Electronic Materials S.A., a company which was listed on the London Stock Exchange, from June 2012 to May 2014. Save as disclosed above Ms. Poon is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

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

ZHAO Cong Richard, aged 66, was appointed as an Independent Non-executive Director on 1 September 2013.

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

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

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

SENIOR MANAGEMENT

The Group's senior management is responsible for the day-to-day management of the business of the Group. The table below shows certain information in respect of the senior management of the Group as at 31 December 2016:

Name	Age	Position/Title	Date of Appointment
YANG Tao	40	Chief Product Officer	15 June 2012
LIANG Na	36	Chief Financial Officer	1 November 2014

YANG Tao, aged 40, was appointed as the chief product officer of the Group on 15 June 2012. He joined the Group in June 2010 through Feiyin where he was the game producer until November 2011. On December 2011, he became the vice president where he was in charge of overseeing the development of webgames and products of the Group. Mr. Yang is primarily responsible for the research and development of webgame products at the Group and drives the planning and selection of the genres, features and design of webgames. Mr. Yang possesses management and development experience in the webgame industry, which is underpinned by his work in pioneering the Group's "凡人修真" (translated as "Soul Guardian") flagship webgame series.

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

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

The biography of Ms. LIANG Na has been disclosed under the paragraph headed "Biographical Details of Directors" above.

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

To the Shareholders of Forgame Holdings Limited
(Incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Forgame Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 75 to 166, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

- Revenue recognition – estimates of lifespan of in-game virtual items with reference to expected playing period of paying players ("Player Relationship Period") in the Group's Game Product service
- Impairment assessment for investments accounted for using equity method and available-for-sale financial assets
- Fair value measurement of investments classified as financial assets through profit and loss ("FVTPL")

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition – estimates of lifespan of in-game virtual items with reference to expected playing period of paying players ("Player Relationship Period") in the Group's Game Product service	
Refer to Notes 2.21, 5 and 25 to the consolidated financial statements. During the year ended 31 December 2016, the Group's revenue from Game Product business amounted to RMB335,648,000, representing 93% of the Group's total revenue. It was mainly derived from the sales of in-game virtual items. The amount of associated deferred revenue amounted to RMB5,586,000 as at 31 December 2016, representing 5% of the Group's total liabilities as at that date. The Group's in-game virtual items are categorised as both durable items and consumable items. Revenue derived from consumable items in its Game Product business (defined in Note 2.21) are recognised once they are consumed. Revenue derived from durable virtual items in Game Product business are recognised ratably over the Player Relationship Period (defined in Note 2.21). The determination of the Player Relationship Period for relevant online virtual items requires significant judgement and estimates. It is made taking into account all known and relevant information available to the Group at the time of assessment. Thus, specific audit focus was placed in this area.	We understood, evaluated and validated the design and operating effectiveness of internal controls in relation to the recognition of revenue from in-game virtual items, including oversight exercised by management in assessing the Player Relationship Periods and computing the monthly revenue of virtual items performed by the Group's information system; inspection of evidence of management's review; testing of the integrity of data and information for supporting the determination of the Player Relationship Periods; as well as testing of the system logic, on a sample basis. We discussed with management and evaluated their judgements and estimations made in determining the Player Relationship Period. We also assessed the historical accuracy of the management's estimation process by comparing the actual Player Relationship Period for the preceding year against the original estimation, on a sample basis. We validated, on a sample basis, the classification of consumable and durable items by reviewing the prescribed usage of the items and the existence of any implied obligations of the Group to provide the services to game players after the specific in-game virtual items were consumed. We also recalculated the deferred revenue balance of different virtual items based on the respective Player Relationship Period on a sample basis. Based on the above, we found that the significant judgement and estimates involved in determining the Player Relationship Periods adopted by management in the revenue recognition of in-game virtual items of the Group were supported by the evidence we obtained.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment for investments accounted for using equity method and investments in available-for-sale financial assets	
Refer to Notes 4 Critical Accounting Estimates and Judgements, Notes 11b and 18 to the consolidated financial statements. During the year ended 31 December 2016, the Group had recognised impairment charges of RMB22,219,000 for its investments accounted for using equity method; and RMB108,063,000 for its investments in available-for-sale financial assets. As at 31 December 2016, the net carrying amount of these investments amounted to RMB23,582,000 and RMB23,150,000 respectively. Impairment charges measurement had taken into account the estimation of key assumptions using the discounted cash flow analysis including revenue growth rates, long-term pre-tax operating margin, and the discount rate. Any changes in these key assumptions could materially affect the result of the impairment assessment and additional impairment provision might be required, or a lesser impairment charge should have been reported. We focused on this area because of the magnitude of the impairment charges was significant during the year ended 31 December 2016; and significant estimates and judgements were required to be exercised by management of the Company to determine the key assumptions adopted in the applicable valuation models.	We understood, evaluated and validated the design and operating effectiveness of internal controls in relation to the assessment of the adequacy of impairment provision set up for investments accounted for using equity method and investments in available-for-sale financial assets, including the identification of impairment indicators and performance of periodic impairment review. We corroborated the evidence, both external and internal factors, made available and maintained by management to identify and assess the existence of impairment indicators. We evaluated and validated the appropriateness of the relevant assumptions adopted by management in performing the impairment assessments. We also tested the accuracy of mathematical calculations applied in the valuation models and assessed the basis and support of key inputs applied in the respective calculations by, a) Comparing the historical operating results against cash flow forecasts compiled by management; b) Comparing the projected revenue growth rate and magnitude of budgeted operating expenses against the business plans, historical operating results, as well as the general economic and industry forecasts which may have an impact on the performance of the investments; c) Benchmarking the discount rates adopted in valuation models against available market data, taking into account the cost of capital of investees and comparable entities in the market/industry. We also performed sensitivity analysis over the revenue growth rate, long-term pre-tax operating margin and discount rate adopted by management to assess the potential impact of a range of possible outcomes. Based on the above, we found that the estimates involved in impairment assessment for investments accounted for using equity method and investments in available-for-sale financial assets were supported by the evidence we obtained.

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of investments classified as financial assets through profit and loss ("FVTPL")	
Refer to Notes 4 Critical Accounting Estimates and Judgements, and Note 17 to the consolidated financial statements. During the year of 2016, the Group invested in convertible bonds issued by Yinker Inc. ("Yinker"), a company which is principally engaged in the internet finance business. The investment is recognised as FVTPL. As at 31 December 2016, the carrying amount of the investment was the RMB314,032,000, accounting for 98% of the Group's total FVTPL and 27% of the Group's total assets. The fair value of FVTPL was determined by management of the Group using the discounted cash flow analysis with the adoption of the binomial option pricing model and equity allocation model in order to reflect the implications of the contract terms of the instrument. Fair value measurement had taken into account the estimation of the following significant unobservable inputs, a) Revenue growth rates, long-term pre-tax operating margin and weighted average cost of capital in the discounted cash flow analysis; b) Expected volatility of shares under liquidation and redemption scenario in equity allocation model; c) Estimated bond yield in binomial option pricing model. We focused on this area due to the magnitude of the investment and the significant estimates and judgements involved in developing unobservable inputs for the use in the valuation models.	We understood, evaluated and validated the design and operating effectiveness of internal controls in relation to the oversight exercised by management over the valuation process, including the adoption of applicable valuation methodology and application of appropriate assumptions. We assessed the reasonableness of management's fair value measurement of the investment and validated management's assumptions used in the valuation models by, a) Comparing the historical revenue growth rate and pre-tax operating margin with the estimation in the forecast results; bench marking the discount rates adopted against market data, taking into account the cost of capital of investee and comparable entities in the industry; b) Assessing the reasonableness of expected volatility of shares under liquidation and redemption scenario with reference to historical volatilities of comparable companies; c) Reviewing the selected comparable data used in estimating the bond yield and assessing the reasonableness of the estimation with reference to market data. We also performed sensitivity analysis over the above key assumptions and unobservable inputs adopted by management to assess the potential impact of a range of possible outcomes. Based on the above, we found that management's judgements and estimates for fair value measurement of the convertible bonds investment are properly supported by the available evidences we gathered.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Note	Year Ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	**361,564**	511,539
Cost of revenue	6	**(289,015)**	(340,125)
Gross profit		**72,549**	171,414
Selling and marketing expenses	6	**(88,820)**	(40,684)
Administrative expenses	6	**(121,983)**	(85,176)
Research and development expenses	6	**(96,476)**	(131,562)
Other income	7	**11,787**	41,582
Other losses	8	**(14,246)**	(15,352)
Finance income-net	10	**8,701**	8,562
Gain on dilution of investments accounted for using the equity method	11b	**3,907**	1,333
Share of income/(loss) of investments accounted for using the equity method	11b	**2,047**	(13,880)
Impairment of investment in associates	11b	**(22,219)**	(19,418)
Impairment of available-for-sale financial assets	18	**(108,063)**	(35,521)
Impairment loss on intangible assets and property and equipment	14, 15	**(30,198)**	(5,774)
Loss before income tax		**(383,014)**	(124,476)
Income tax expense	12	**(13,478)**	(5,145)
Loss for the year		**(396,492)**	(129,621)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
– Change in value of available-for-sale financial assets	18	**(5,202)**	1,046
Items that will not be subsequently reclassified to profit or loss:			
– Currency translation differences	23	**35,783**	3,535
Total other comprehensive income, before tax		**30,581**	4,581
Income tax relating to components of other comprehensive income	28	**780**	(157)
Other comprehensive income for the year, net of tax		**31,361**	4,424
Total comprehensive loss for the year		**(365,131)**	(125,197)

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Note	Year Ended 31 December 2016 RMB'000	2015 RMB'000
Loss attributable to:			
– Owners of the Company		**(395,174)**	(129,144)
– Non-controlling interests		**(1,318)**	(477)
		(396,492)	(129,621)
Total comprehensive loss attributable to:			
– Owners of the Company		**(363,813)**	(124,720)
– Non-controlling interests		**(1,318)**	(477)
		(365,131)	(125,197)
Loss per share (expressed in RMB per share)	13		
– Basic		**(2.89)**	(0.95)
– Diluted		**(2.89)**	(0.95)

The notes on pages 83 to 166 are integral parts of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property and equipment	14	**8,217**	26,197
Intangible assets	15	**17,381**	58,650
Investments accounted for using the equity method	11b	**23,582**	43,857
Financial assets at fair value through profit or loss	17	**319,922**	15,651
Available-for-sale financial assets	18	**23,150**	122,255
Prepayments and other receivables	20	**1,183**	2,410
Deferred income tax assets	28	**—**	12,686
		393,435	281,706
Current assets			
Trade receivables	19	**40,480**	71,927
Prepayments and other receivables	20	**10,112**	43,675
Restricted cash	21	**807**	674
Short-term deposits	21	**448,997**	200,000
Cash and cash equivalents	21	**267,986**	927,129
		768,382	1,243,405
Total assets		**1,161,817**	1,525,111
EQUITY			
Equity attributable to owners of the Company			
Share capital	22	**87**	88
Share premium	22	**2,073,900**	2,099,777
Reserves	23	**(65,296)**	(100,750)
Accumulated losses		**(949,535)**	(554,361)
		1,059,156	1,444,754
Non-controlling interests		**(1,046)**	(28)
Total equity		**1,058,110**	1,444,726

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	28	**64**	844
Deferred revenue	25	**410**	1,358
		474	2,202
Current liabilities			
Trade payables	26	**26,652**	24,091
Other payables and accruals	27	**64,107**	40,063
Income tax liabilities		**1,620**	—
Deferred revenue	25	**10,854**	14,029
		103,233	78,183
Total liabilities		**103,707**	80,385
Total equity and liabilities		**1,161,817**	1,525,111

The notes on pages 83 to 166 are integral parts of these consolidated financial statements.

The financial statements on pages 75 to 166 were approved by the Board of Directors on 28 March 2017 and were signed on its behalf.

WANG Dongfeng
Director

LIANG Na
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to Owners of the Company						
	Note	Share Capital RMB'000	Share Premium RMB'000	Reserves RMB'000	Accumulated Losses RMB'000	Total RMB'000	Non-Controlling Interests RMB'000	Total Equity RMB'000
Balance at 1 January 2015		80	1,934,534	(117,075)	(425,217)	1,392,322	8,724	1,401,046
Comprehensive loss								
Loss for the year		—	—	—	(129,144)	(129,144)	(477)	(129,621)
Other comprehensive income:								
Revaluation of available-for-sale financial assets	23	—	—	889	—	889	—	889
Currency translation differences	23	—	—	3,535	—	3,535	—	3,535
Total comprehensive loss		—	—	4,424	(129,144)	(124,720)	(477)	(125,197)
Transactions with owners in their capacity as owners								
New shares issued for placement	22	12	248,237	—	—	248,249	—	248,249
Repurchase and cancellation of shares	22	(4)	(82,994)	—	—	(82,998)	—	(82,998)
Employee share-based compensation scheme:								
– Value of employee services	24	—	—	9,592	—	9,592	—	9,592
– Shares issued upon exercise of employee share options	22	—	—	—	—	—	—	—
Disposal of a subsidiary		—	—	—	—	—	(8,275)	(8,275)
Total transactions with owners in their capacity as owners		8	165,243	9,592	—	174,843	(8,275)	166,568
Share of other net asset changes in associates' equity	11b	—	—	2,309	—	2,309	—	2,309
Balance at 31 December 2015		88	2,099,777	(100,750)	(554,361)	1,444,754	(28)	1,444,726

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to Owners of the Company							
	Note	Share Capital RMB'000	Share Premium RMB'000	Shares held for Restricted Share Units Scheme RMB'000	Reserves RMB'000	Accumulated Losses RMB'000	Total RMB'000	Non-Controlling Interests RMB'000	Total Equity RMB'000
Balance at 1 January 2016		88	2,099,777	—	(100,750)	(554,361)	1,444,754	(28)	1,444,726
Comprehensive loss									
Loss for the year		—	—	—	—	(395,174)	(395,174)	(1,318)	(396,492)
Other comprehensive income:									
Revaluation of available-for-sale financial assets	23	—	—	—	(4,422)	—	(4,422)	—	(4,422)
Currency translation differences	23	—	—	—	35,783	—	35,783	—	35,783
Total comprehensive loss		—	—	—	31,361	(395,174)	(363,813)	(1,318)	(365,131)
Transactions with owners in their capacity as owners									
Capital injection		—	—	—	—	—	—	300	300
Repurchase and cancellation of shares	22	(2)	(26,180)	—	—	—	(26,182)	—	(26,182)
Employee share-based compensation scheme:									
– Shares purchased for Restricted Share Units Scheme	22	—	—	(7,836)	—	—	(7,836)	—	(7,836)
– Vesting of shares of Restricted Share Units Scheme	22	—	303	7,836	(8,139)	—	—	—	—
– Value of employee services	24	—	—	—	16,272	—	16,272	—	16,272
– Shares issued upon exercise of employee share options	22	1	—	—	—	—	1	—	1
Total transactions with owners in their capacity as owners		(1)	(25,877)	—	8,133	—	(17,745)	300	(17,445)
Transfer out of share of other net asset changes in associates' equity	11b	—	—	—	(4,040)	—	(4,040)	—	(4,040)
Balance at 31 December 2016		87	2,073,900	—	(65,296)	(949,535)	1,059,156	(1,046)	1,058,110

The notes on pages 83 to 166 are integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year Ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash used in operations	29	**(77,015)**	(412)
Income tax refund/(paid)		**4,034**	(1,091)
Net cash used in operating activities		**(72,981)**	(1,503)
Cash flows from investing activities			
Purchases of property and equipment		**(656)**	(1,966)
Proceeds from disposals of property and equipment	29	**840**	2,474
Purchases of intangible assets		**(10,555)**	(28,676)
Payments for investments in associates		**(6,330)**	(32,700)
Payments for investment in a jointly controlled-entity		**—**	(5,000)
Acquisitions of financial assets at fair value through profit or loss	17	**(300,488)**	—
Prepayments for investment		**—**	(3,500)
Purchases of available-for-sale financial assets		**(14,160)**	(19,450)
Disposal of a subsidiary, net of cash disposed		**—**	(8,786)
Placement of short-term deposits		**(1,360,655)**	(780,000)
Proceeds received upon maturity of short-term deposits		**1,130,757**	780,000
Interest received from short-term deposits		**8,300**	8,921
Payment for restricted cash	21	**(717)**	(674)
Refund of restricted cash	21	**584**	—
Interest received from restricted cash		**3**	3
Net cash used in investing activities		**(553,077)**	(89,354)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year Ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from financing activities			
Purchases of shares for Restricted Share Units Scheme	22	**(7,836)**	—
Payment for repurchase of shares	22	**(26,182)**	(82,998)
Proceeds from issuance of shares upon exercise of employee share options	22	**1**	—
Proceeds from issuance of new shares, net of underwriting commissions and other issuance costs	22	**—**	248,249
Proceeds from capital contribution from non-controlling interests holders		**300**	—
Net cash (used in)/generated from financing activities		**(33,717)**	165,251
Net (decrease)/increase in cash and cash equivalents		**(659,775)**	74,394
Cash and cash equivalents at beginning of year		**927,129**	851,947
Exchange gains on cash and cash equivalents		**632**	788
Cash and cash equivalents at end of year		**267,986**	927,129

The notes on pages 83 to 166 are integral parts of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (collectively the "Group") are principally engaged in developing and publishing webgames and mobile games (the "Group's Game Business") in the People's Republic of China (the "PRC").

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

The Group's Game Business is carried out through several domestic operating companies, incorporated in the PRC, namely Guangzhou Weidong Internet Technology Co., Ltd. (廣州維動網絡科技有限公司, "Weidong"), Guangzhou Feiyin Information Technology Co., Ltd. (廣州菲音信息科技有限公司, "Feiyin"), and Guangzhou Jieyou Software Co., Ltd. (廣州捷遊軟件有限公司, "Jieyou"). Mr. Wang Dongfeng, Mr. Huang Weibing, Mr. Liao Dong, Mr. Yang Tao and Mr. Zhuang Jieguang (collectively as the "Founders") are their respective legal shareholders. Weidong, Feiyin and Jieyou are collectively defined as the "PRC Operational Entities" thereafter.

Pursuant to applicable PRC laws and regulations, foreign investors are restricted from conducting value-added telecommunications services or holding equity interest in an entity conducting such services in China. In order to enable investments be made into the Group's Game Business, the Company established a subsidiary, Guangzhou Feidong Software Technology Co., Ltd. (廣州菲動軟件科技有限公司, "Feidong"), which is a wholly foreign owned enterprise incorporated in the PRC.

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

- exercise effective financial and operational control over the PRC Operational Entities;
- exercise equity holders' voting rights of the PRC Operational Entities;
- receive substantially all of the economic interest returns generated by the PRC Operational Entities in consideration for the business support, technical and consulting services provided by Feidong, at Feidong's discretion;
- obtain an irrevocable and exclusive right with an initial period of 10 years to purchase the entire equity interest in the PRC Operational Entities from the respective equity holders. The right automatically renews upon expiry until Feidong specifies a renewal term;
- obtain a pledge over the entire equity interest of the PRC Operational Entities from their respective equity holders as collateral security for all of the PRC Operational Entities' payments due to Feidong and to secure performance of the PRC Operational Entities' obligations under the Contractual Arrangements.

1 GENERAL INFORMATION (Continued)

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

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

The financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Company's Board of Directors on 28 March 2017.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation (Continued)

2.1.1 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

– Annual improvements to IFRSs 2012 – 2014 cycle

– Disclosure initiative – amendments to IAS 1.

The adoption of these amendments to standards and improvements do not have any impact on the current period or any prior period.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

– IFRS 9, "Financial instruments"

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for a new impairment model for financial assets.

IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. There will be no material impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation (Continued)

2.1.1 Changes in Accounting Policy and Disclosures (Continued)

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39.

The Group is currently in the process of assessing and will continue the evaluation, analysis, and documentation of its adoption of IFRS 9 throughout 2017 as the Group works towards the implementation and finalises its determination of the impact to the Group's financial statements.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group does not intend to adopt the standard before its mandatory date.

– IFRS 15, "Revenue from contracts with customers"

The new standard establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations and (5) Recognise revenue when performance obligation is satisfied. It moves away from a revenue recognition model based on an approach of transfer of risk and rewards to an approach based on transfer of control.

The Group is currently in the process of assessing and will continue the evaluation, analysis, and documentation of its adoption of IFRS 15 throughout 2017 as the Group works towards the implementation and finalises its determination of the impact to the Group's financial statements.

IFRS 15 permits either a full retrospective or a modified retrospective approach for the adoption. The standard is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation (Continued)

2.1.1 Changes in Accounting Policy and Disclosures (Continued)

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

– IFRS 16, "Leases"

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB4,778,000 (Note 30). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (continued)

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

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

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

(c) Disposal of subsidiaries

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

2.2.2 Separate Financial Statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Associates

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Joint Arrangements

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

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

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

2.5 Segment Reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign Currency Translation (Continued)

(c) *Group companies*

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

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

– all resulting currency exchange differences are recognised in other comprehensive income.

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

2.7 Property and Equipment

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property and Equipment (Continued)

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

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

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

2.8 Intangible Assets

(a) Goodwill

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

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

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

(b) Computer software licenses

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

(c) Game intellectual properties and licenses

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible Assets (Continued)

(d) Research and development expenditures

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

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

2.9 Impairment of Non-financial Assets

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

2.10 Financial Assets

(a) Classification

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

(a) Classification (Continued)

Financial assets at fair value through profit or loss

As at 31 December 2016, the Group has the following instruments falling into this category:

(i) Convertible bonds, ordinary shares with preferential rights or redeemable convertible preferred shares issued by different investee companies, which are hybrid instruments with embedded derivatives not closely related to the host contract. The Company designated the whole instruments as financial assets at fair value through profit or loss instead of bifurcating the embedded derivatives from those host contracts;

(ii) Ordinary shares listed on a stock exchange and classified as financial assets held-for-trading.

Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. As at 31 December 2016, the Group's investment in this category are all classified as non-current assets.

Loans and receivables

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

Available-for-sale financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

(b) Recognition and measurement

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

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

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

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive loss as “gains and losses from investment securities”.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Offsetting Financial Instruments

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

2.12 Impairment of Financial Assets

(a) *Assets carried at amortised cost*

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

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

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of Financial Assets (Continued)

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

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

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

2.13 Trade Receivables and Other Receivables

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

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

2.14 Cash and Cash Equivalents

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(a) *Share capital and share premium*

Ordinary shares are classified as equity.

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Trade Payables

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

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

2.17 Current and Deferred Income Tax

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

(a) *Current income tax*

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

(b) *Deferred income tax*

Inside basis differences

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Current and Deferred Income Tax (Continued)

(b) Deferred income tax (Continued)

Outside basis differences

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

(c) Offsetting

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

2.18 Employee Benefits

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Share-based Payments

(a) Equity-settled share-based payments transactions

The Group operates the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme, and Restricted Share Units Scheme (as defined in Note 24), which is an equity-settled shared-based compensation plan under which share awards are granted to employees as part of their remuneration package.

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

– including any market performance conditions;

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

– including the impact of any non-vesting conditions.

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

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

(b) Share-based payments transactions among Group entities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Provisions

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

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

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

2.21 Revenue recognition

The Group is principally engaged in the provision of game product development service ("Game Product") and game platform publishing services ("Game Platform"). The Group's revenue is substantially derived from the sales of in-game virtual items from both Game Product and Game Platform. Revenues reported in the financial statements are net of sales tax and related surcharges.

(a) Game Product revenue

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue recognition (Continued)

(a) Game Product revenue (Continued)

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue Recognition (Continued)

(a) Game Product revenue (Continued)

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue Recognition (Continued)

(b) Game Platform revenue

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Interest Income

Interest income mainly represents interest income derived from bank deposits and is recognised using effective interest method.

2.23 Government Grants

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

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

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

2.24 Leases

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

2.25 Dividend Distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial Risk Factors

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

(a) Market risk

(i) Foreign exchange risk

The Group's PRC subsidiaries are exposed to foreign exchange risk arising from recognised assets and liabilities in foreign currencies, primarily with respect to US$; as well as from oversea business partners. As at 31 December 2016, the Group's PRC subsidiaries did not have significant exchange risk from the operations as the transactions undertaken with overseas business associates were not substantial.

The Group's holding company and certain oversea subsidiaries' transactions are denominated and settled in their functional currency, US$. Their net assets are exposed to foreign currency translation risk. For the year ended 31 December 2016, the Group had currency translation gains of RMB35,783,000 recognised as other comprehensive income in the consolidated statements of comprehensive loss. Such currency translation differences primarily arose from the translation of the US$ denominated net assets into the Group's presentation currency RMB. The currency translation gains were mainly attributable to the appreciation of US$ against RMB during the current period.

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

(ii) Interest rate risk

Other than interest-bearing cash and cash equivalents and short-term deposits, the Group has no other significant interest-bearing assets. The Company does not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial Risk Factors (Continued)

(a) Market risk (Continued)

(iii) Price risk

The Group is exposed to price risk because of the Group's certain investments in listed shares are classified as financial assets at fair value through profit or loss and re-measured based on the active stock market price. As at 31 December 2016, the balance is insignificant and the price risk is considered to be low. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short-term deposits, restricted cash, trade receivables, other receivables and investment in convertible bonds classified as financial assets at fair value through profit or loss (Note 17). The carrying amounts of cash and cash equivalents, short-term deposits, restricted cash, trade receivables, other receivables represent the Group's maximum exposure to credit risk in relation to financial assets, while for investment in convertible bonds, the maximum exposure to credit risk at the reporting date is the principal amount and accrued interests of the bonds.

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

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

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

For investment in convertible bonds, risk control assesses the credit quality of the investee, taking into account its financial position, business experience and other factors.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial Risk Factors (Continued)

(c) Liquidity risk

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

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

Group	**Less than 3 Months RMB'000**	**Between 3 Months and1 year RMB'000**
As at 31 December 2016		
Trade payables	**26,652**	**—**
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	**40,479**	**—**
As at 31 December 2015		
Trade payables	22,141	1,950
Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	16,739	—

3.2 Capital Management

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

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair Value Estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

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

The following table presents the Group's assets that are measured at fair value as at 31 December 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring Fair Value Measurements:				
Assets:				
Financial assets at fair value through profit or loss	3,446	—	12,205	15,651
Available-for-sale financial assets	—	—	122,255	122,255
	3,446	—	134,460	137,906

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair Value Estimation (Continued)

During the year ended 31 December 2016, the Group converted its investment in certain performance shares to the ordinary shares, which are publicly traded in an active market. Accordingly the investment was transferred from level 3 to level 1. The equity investment was classified as financial assets at fair value through profit or loss and has been fair valued using unobservable inputs as at 31 December 2015.

(a) *Financial instrument in level 1*

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

(b) *Financial instrument in level 2*

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

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

Specific valuation techniques used to value financial instruments include:

– Quoted market prices or dealer quotes for similar instruments.

– Other techniques, such as discounted cash flow analysis, are used to determine fair value.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair Value Estimation (Continued)

(c) Financial instrument in level 3

The changes in level 3 instruments for the years ended 31 December 2016 and 2015 are presented in Notes 17 and 18.

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

(RMB in thousands)

Description	Fair value at 31/12/2016	Valuation technique(s)	Unobservable input	Range (weighted average)
Debt security:				
Financial assets at fair value through profit or loss – An investment in convertible bonds (Note 17)	314,032	Discounted cash flow	weighted average cost of capital	21%
			long-term revenue growth rate	3%
			long-term pre-tax operating margin	57%
		Equity allocation model	Expected volatility of shares under liquidation and redemption scenario	46.12%
		Binomial option pricing model	Estimated bond yield	19.6%
Other equity securities:				
Available-for-sale financial assets	23,150	Discounted cash flow	weighted average cost of capital	32.2%-35.0% (32.5%)
			long-term revenue growth rate	3% (3%)
			long-term pre-tax operating margin	4%-8% (7%)
Other financial assets at fair value through profit or loss	4,420	Market comparable companies	revenue multiple	2.5 (2.5)

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Critical Accounting Estimates and Assumptions

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

(a) *Estimates of Player Relationship Period in the Group's Game Product and Game Platform services*

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

(b) *Income tax*

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

(c) *Recognition of deferred tax assets*

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.1 Critical Accounting Estimates and Assumptions (Continued)

(d) *Recognition of share-based compensation expenses*

As mentioned in Note 24, the Group has granted share options to its directors and employees. The Company has used the Binomial option-pricing model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant estimate on assumptions, such as underlying equity value, risk-free interest rate, expected volatility and dividend yield, is required to be made by the Company in applying the Binomial option-pricing model.

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

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

(f) *Estimated impairment of investments accounted for using equity method*

Investments accounted for using equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with the accounting policy states in Note 2.3. The recoverable amounts of the associates have been determined using the discounted cash flow analysis. Significant estimates on assumptions, such as the forecast of the associate's future performance and the discount rate used in the analysis, are required to be made by the Company in the analysis.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.2 Critical Judgments in Applying the Group's Accounting Policies

(a) *Revenue presentation and recognition*

Revenue presentation for webgames

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

Revenue presentation for mobile games

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

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

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

For the year ended 31 December 2016, the Group recognised an aggregate impairment loss of RMB108,063,000 against the carrying amounts of certain investments due to prolonged decline in their assessed fair values (Note 18).

5 SEGMENT INFORMATION

The Group's Game Business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the Chief Operating Decision Maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

– Game Product

– Game Platform

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Other income, other losses, finance income-net, gain on dilution of investments accounted for using the equity method, share of income/(loss) of investments accounted for using the equity method, impairment of investment in associates, impairment of available-for-sale financial assets, impairment loss on intangible assets and property and equipment, and income tax expense are also not allocated to individual operating segments.

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Cost of revenue primarily comprises bandwidth and server custody fees, employee benefit expenses, content cost, distribution cost and other outsourcing expenses, depreciation and amortisation and others.

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

5 SEGMENT INFORMATION (Continued)

The segment information provided to the Group's CODM for the reportable segments for the years ended 31 December 2016 and 2015 is as follows:

	Year Ended 31 December 2016		
	Game Product RMB'000	**Game Platform RMB'000**	**Total RMB'000**
Segment revenue	**335,648**	**25,916**	**361,564**
Segment costs	**(283,768)**	**(5,247)**	**(289,015)**
Gross profit	**51,880**	**20,669**	**72,549**
Depreciation and amortization included in segment costs	**15,987**	**1,037**	**17,024**

	Year Ended 31 December 2015		
	Game Product RMB'000	Game Platform RMB'000	Total RMB'000
Segment revenue	468,086	43,453	511,539
Segment costs	(327,444)	(12,681)	(340,125)
Gross profit	140,642	30,772	171,414
Depreciation and amortization included in segment costs	29,812	1,931	31,743

5 SEGMENT INFORMATION (Continued)

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC. The segment revenue provided to the Group's CODM for the PRC (excluding Hong Kong) and other regions for the years ended 31 December 2016 and 2015 is as follows:

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

	Year Ended 31 December 2015		
	PRC (Excluding Hong Kong) RMB'000	Other Regions RMB'000	Total RMB'000
Segment revenue	457,369	54,170	511,539

The reconciliation of gross profit to loss before income tax is shown in the consolidated statement of comprehensive loss.

The Group offers its products and services in different forms: mobile games and webgames. A breakdown of revenue derived from different forms for years ended 31 December 2016 and 2015 is as follows:

	Year Ended 31 December	
	2016 RMB'000	2015 RMB'000
Mobile games	**230,508**	309,724
Webgames	**131,056**	201,815
	361,564	511,539

There is no concentration risk as no single external customer contributed more than 10% of the Group's total revenue for the year ended 31 December 2016 (2015: Nil).

Turnover consists of revenues generated by the Group, which accounted for RMB361,564,000 for the year ended 31 December 2016 (2015: RMB511,539,000).

As at 31 December 2016 and 2015, majority of the non-current assets of the Group were located in the PRC.

6 EXPENSES BY NATURE

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Content cost, distribution cost and other outsourcing expenses	**252,846**	282,232
Employee benefit expenses (Note 9)	**138,975**	156,232
Promotion and advertising expenses	**78,353**	30,594
Amortisation of intangible assets (Note 15)	**22,787**	33,247
Impairment loss on prepayments and other receivables (Note 20)	**19,815**	4,843
Impairment loss on trade receivables (Note 19)	**15,699**	3,591
Bandwidth and server custody fees	**13,596**	22,664
Depreciation of property and equipment (Note 14)	**11,769**	16,092
Operating lease rentals in respect of office buildings	**10,812**	14,783
Travelling and entertainment expenses	**7,938**	10,253
Auditors' remuneration		
– Audit services	**4,500**	5,665
– Non-audit services	**1,004**	577
Legal claim (Note a)	**2,000**	500
Others	**16,200**	16,274
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**596,294**	597,547

(a) The Group made additional provision of RMB2,000,000 for a legal claim related to copyright infringement after taking appropriate legal advice (2015: RMB500,000). The aggregate provision for the case was RMB2,500,000 as at 31 December 2016.

7 OTHER INCOME

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Interest income (Note a)	**6,999**	31,788
Government grants (Note b)	**4,788**	9,794
	11,787	41,582

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

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

8 OTHER LOSSES

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Changes in the value of financial assets at fair value through profit or loss (Note 17)	**9,791**	6,323
Loss on disposal of property and equipment (Note 29(a))	**3,400**	1,899
Exchange losses, net	**1,055**	1,172
Loss on disposal of a subsidiary	**—**	5,958
	14,246	15,352

9 EMPLOYEE BENEFIT EXPENSES

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**103,183**	121,222
Pension costs – defined contribution plans	**4,822**	4,988
Social security costs, housing benefits and other employee benefits	**14,698**	20,430
Share-based compensation expenses (Note 24)	**16,272**	9,592
	138,975	156,232

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two (2015: None) directors whose emoluments are reflected in the analysis shown in Note 35. The emoluments payable to the remaining three (2015: Five) individuals during the year ended 31 December 2016 are as follows:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**5,802**	4,106
Pension costs – defined contribution plans	**20**	26
Social security costs, housing benefits and other employee benefits	**46**	71
Share-based compensation expenses	**7,286**	8,703
	13,154	12,906

9 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Five highest paid individuals (Continued)

The emoluments of these individuals fell within the following bands:

	Year Ended 31 December	
	2016	2015
Emolument bands		
HK$2,000,001 - HK$2,500,000	**1**	—
HK$2,500,001 - HK$3,000,000	**—**	2
HK$3,000,001 - HK$3,500,000	**1**	2
HK$4,000,001 - HK$4,500,000	**—**	1
HK$8,000,001 - HK$8,500,000	**1**	—
	3	5

10 FINANCE INCOME - NET

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Interest income on restricted cash	**1**	5
Interest income on short-term deposits	**8,700**	8,557
	8,701	8,562

11a SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of the principal subsidiaries (including structured entities) as at 31 December 2016:

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

11a SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Continued)

Company Name	Kind of Legal Entity	Country and Date of Incorporation/ Establishment	Issued and Fully Paid Share Capital/ Registered Capital	Equity Interest Held	Principal Activities and Place of Operation
Indirectly held by the Company					
Hongkong Ledong Tech Limited (“Ledong”)	Limited liability company	Hong Kong/ 22 March 2012	HK$10,000	100%	Investment holding and operation of webgames, Hong Kong
Forgame International Co., Ltd. (雲遊股份有限公司) (“Yunyou”)	Limited liability company	Taiwan/ 11 October 2013	New Taiwan dollars (“NT$”)15,000,000	100%	Development of webgames and mobile games, technology services, Taiwan
Guangzhou Feidong Software Technology Co., Ltd. (廣州菲動軟件科技有限公司) (“Feidong”)	Limited liability company	the PRC/ 13 June 2012	US$15,000,000	100%	Software development and provision of information technology services, the PRC
Guangzhou Feiyin Information Technology Co., Ltd. (廣州菲音信息科技有限公司) (“Feiyin”)*	Limited liability company	the PRC/ 12 April 2004	RMB10,000,000	100%	Development of webgames and mobile games, the PRC
Guangzhou Weidong Internet Technology Co., Ltd. (廣州維動網絡科技有限公司) (“Weidong”)*	Limited liability company	the PRC/ 22 January 2007	RMB10,000,000	100%	Development and operation of webgames and mobile games, the PRC
Guangzhou Jieyou Software Co., Ltd. (廣州捷遊軟件有限公司) (“Jieyou”)*	Limited liability company	the PRC/ 7 June 2012	RMB10,000,000	100%	Development and operation of webgames and mobile games, the PRC

11a SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Continued)

Company Name	Kind of Legal Entity	Country and Date of Incorporation/ Establishment	Issued and Fully Paid Share Capital/ Registered Capital	Equity Interest Held	Principal Activities and Place of Operation
Indirectly held by the Company					
Beijing Cangjinge Technology Co., Ltd. (北京藏今閣科技有限公司) ("Cangjinge") *	Limited liability company	the PRC/ 3 August 2016	RMB300,000	100%	Development and operation of webgames and mobile games, the PRC
Guangzhou Yunmi Software Co., Ltd. (廣州市雲米軟件科技有限公司) ("Yunmi")	Limited liability company	the PRC/ 26 July 2016	RMB100,000	100%	Software development and provision of information technology services, the PRC
Jiujiang Yunke Internet Microfinance Co., Ltd. (九江市雲客網絡小額貸款有限公司) ("Yunke") *	Limited liability company	the PRC/ 15 December 2016	RMB200,000,000	100%	Microfinance services, the PRC
Khorgos Yunxin Information Technology Co., Ltd. (霍爾果斯市雲鑫信息科技有限公司) ("Yunxin") *	Limited liability company	the PRC/ 5 January 2016	RMB1,000,000	70%	Software development and provision of information technology services, the PRC

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

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

The Company has set up a structured entity ("Restricted Share Units Scheme Trust") solely for the purpose of purchasing, administering and holding the Company's shares for the Restricted Share Units Scheme (Note 24(c)), the Company has the power to direct the relevant activities of the Restricted Share Units Scheme Trust and it has the ability to use its power over the Restricted Share Units Scheme Trust to affect its exposure to returns. Therefore, the assets and liabilities of the Restricted Share Units Scheme Trust are included in the Group's balance sheet and the shares it held are presented as a deduction in equity as Shares held for Restricted Share Units Scheme.

11b INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Associates (Note a)	**23,582**	43,857
Joint venture (Note b)	**—**	—
	23,582	43,857

(a) Investment in associates

The amounts recognised in the consolidated statement of comprehensive loss are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of year	**43,857**	35,126
Additions	**30**	26,000
Share of income/(loss) of associates	**2,047**	(8,880)
Converted from investment in a joint venture	**2,429**	—
Gain on dilution of interest in associates	**1,478**	1,333
Share of other net asset changes in associates' equity	**—**	2,309
Loss on disposal of associates	**—**	(4,613)
Impairment charges (Note (i))	**(26,259)**	(19,418)
Conversion of a subsidiary to an associate due to loss of control	**—**	12,000
At end of year	**23,582**	43,857

(i) During the year, the Group performed an assessment on the business performance of its associates. The Group adopted discounted cash flow method to assess the recoverable amount of investments in associates with the key assumptions including the investees' long-term revenue growth rates, long-term pre-tax operating margin, and the discount rate. Impairment provision of RMB26,259,000 had been made against the carrying amounts of these investments which were considered to be irrecoverable due to the uncertainty of their future performance and operations, the loss was net off against the share of reserves of these associates amounting to RMB4,040,000 previously recognised by the Group (Note 23) and a net impairment loss of RMB22,219,000 was recorded by the Group during the year.

11b INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

(a) Investment in associates (Continued)

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

Set out below is an associate of the Group as at 31 December 2016, which, in the opinion of the Company, are material to the Group. The associate as listed below has share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation/registration is also its principal place of business.

Name of entity	**Place of business/ country of incorporation**	**% of ownership interest**	**Nature of the relationship**
Beijing Hongruan Xiechuang Communication and Technology Co., Ltd. (北京虹軟協創通訊技術有限公司) ("Hongruan")	the PRC	20%	(i)

(i) Hongruan offers tele-communication channel service to internet related companies. Hongruan is a strategic partnership for the Group.

Summarised financial information for the material associate

Set out below are the summarised financial information for Hongruan which is accounted for using the equity method.

Summarised balance sheet

	Hongruan	
	2016	2015
	RMB'000	RMB'000
Current assets	**134,594**	29,241
Non-current assets	**2,972**	4,260
Current liabilities	**(86,100)**	(20,020)
Net assets	**51,466**	13,481

11b INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

(a) Investment in associates (Continued)

Summarised financial information for the material associate (Continued)

Summarised statement of comprehensive income

	Hongruan	
	2016	From investment date to the year ended of 31 December 2015
	RMB'000	RMB'000
Revenue	**186,244**	55,589
Profit from continuing operations	**41,898**	3,714
Post-tax profit from continuing operations	**37,985**	3,587
Other comprehensive income	**—**	—
Total comprehensive income	**37,985**	3,587

The information above reflects the amounts presented in the financial statements of Hongruan (and not the Group's share of those amounts), adjusted for differences in accounting policies between the Group and Hongruan.

11b INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

(a) Investment in associates (Continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in Hongruan:

	Hongruan	
	2016	2015
	RMB'000	RMB'000
Opening net assets on 1 January/establishment	**13,481**	9,894
Profit for the year/period	**37,985**	3,587
Closing net assets	**51,466**	13,481
Interest in associate (20%)	**10,293**	2,696
Goodwill		
– Initial amount	**3,021**	3,021
Carrying value	**13,314**	5,717

The Group's share of the results of other immaterial associates is shown in aggregate as follows:

	2016	2015
	RMB'000	RMB'000
Loss from continuing operations	**(5,550)**	(9,597)
Other comprehensive income	**—**	—
Total comprehensive loss	**(5,550)**	(9,597)

All associates are private companies and there are no active quoted market prices available for their shares.

There were no contingent liabilities relating to the Group's interest in the associates as at 31 December 2016.

11b INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

(b) Investment in a joint venture

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening	**—**	10,000
Gain on dilution of interest in a joint venture (Note i)	**2,429**	—
Transfer to investment in associates (Note i)	**(2,429)**	—
Reduction in investment	**—**	(5,000)
Share of loss of joint venture	**—**	(5,000)
Closing	**—**	—

(i) The investee issued shares to a few new investors in 2016. Accordingly, the Group's interests in the joint venture was diluted from 50% to 25%, which resulted in a dilution gain amounting to RMB2,429,000. Since the Group has retained significant influence in the investee, the carrying amount of the investment was transferred to investment in associates.

12 INCOME TAX EXPENSE

The income tax expense of the Group for the years ended 31 December 2016 and 2015 are analysed as follows:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax:		
– PRC and oversea enterprise income tax	**792**	(479)
Deferred income tax (Note 28):		
– Reversal of temporary differences	**12,686**	5,624
Income tax expense	**13,478**	5,145

12 INCOME TAX EXPENSE (Continued)

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

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Loss before income tax	**(383,014)**	(124,476)
Tax calculated at statutory income tax rates applicable to losses of the consolidated entities in their respective jurisdictions	**(91,046)**	(35,603)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	**33,395**	12,418
Reversal of previously recognised tax losses and timing differences	**12,686**	—
Tax losses and timing differences for which no deferred income tax asset was recognised	**49,736**	21,326
Super deduction of research and development expenses	**(1,737)**	(2,161)
Expenses not deducted for income tax purposes:		
– Share-based compensation	**2,317**	1,354
– Others	**8,127**	7,811
Income tax expense	**13,478**	5,145

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

Hong Kong profits tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the year ended 31 December 2016 (2015: Nil).

(c) Taiwan business income tax

Yunyou is incorporated in Taiwan, and the business income tax rate is 17% for the year ended 31 December 2016 (2015: 17%).

12 INCOME TAX EXPENSE (Continued)

(d) PRC enterprise income tax ("EIT")

The income tax provision of the Group in respect of operations in the PRC was calculated at the tax rate of 25% on the assessable profits for the year ended 31 December 2016 (2015: 25%), based on the existing legislation, interpretations and practices in respect thereof.

Weidong and Feiyin were qualified as "High and New Technology Enterprises" ("HNTEs") under the EIT Law in 2013. Accordingly, they were entitled to a preferential income tax rate of 15% for a 3-year period. Weidong and Feiyin have renewed their qualification of "HNTEs" in 2016, thus the applicable tax rate was 15% for the year ended 31 December 2016 (2015: 15%).

Feidong and Jieyou were accredited as "software enterprises" under the relevant PRC Laws and regulations. They are exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing either from the first year of commercial operations or from the first year of profitable operation after offsetting tax losses generating from prior years. The applicable tax rate for two companies was 12.5% for the year ended 31 December 2016 (2015: 12.5%).

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that became effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the years ended 31 December 2016 and 2015.

(e) PRC withholding tax ("WHT")

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

As at 31 December 2016, the Group did not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as at 31 December 2016.

12 INCOME TAX EXPENSE (Continued)

(f) Tax charge relating to components of other comprehensive income

The tax charge relating to components of other comprehensive income during the year is as follows:

	2016			2015		
	Before tax RMB'000	**Tax credit RMB'000**	**After tax RMB'000**	Before tax RMB'000	Tax charge RMB'000	After tax RMB'000
Fair value (losses)/gains on available-for-sale financial assets	**(5,202)**	**780**	**(4,422)**	1,046	(157)	889
Currency translation differences	**35,783**	**—**	**35,783**	3,535	—	3,535
Other comprehensive income	**30,581**	**780**	**31,361**	4,581	(157)	4,424
Current tax		**—**			—	
Deferred tax (Note 28)		**780**			(157)	
		780			(157)	

13 LOSS PER SHARE

(a) Basic

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

	Year Ended 31 December	
	2016	2015
Loss attributable to owners of the Company (RMB'000)	**(395,174)**	(129,144)
Weighted average number of ordinary shares in issue	**136,806,927**	136,195,587
Basic loss per share (in RMB/share)	**(2.89)**	(0.95)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended 31 December 2016, the Company had three categories of dilutive potential ordinary shares, share options granted to employees under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, and restricted share units granted to employees under Restricted Share Units Scheme.

As the Group incurred losses for the year ended 31 December 2016, the potential ordinary shares were not included in the calculation of dilutive loss per share, which would be anti-dilutive. Accordingly dilutive loss per share for the year ended 31 December 2016 was the same as basic loss per share for the year.

14 PROPERTY AND EQUIPMENT

	Furniture and Office Equipment RMB'000	Server and Other Equipment RMB'000	Motor Vehicles RMB'000	Leasehold Improvement RMB'000	Total RMB'000
At 1 January 2015					
Cost	8,527	55,404	2,422	21,180	87,533
Accumulated depreciation	(3,046)	(28,841)	(1,048)	(11,233)	(44,168)
Net book amount	5,481	26,563	1,374	9,947	43,365
Year ended 31 December 2015					
Opening net book amount	5,481	26,563	1,374	9,947	43,365
Additions	868	84	285	1,324	2,561
Disposals	(328)	(3,247)	—	—	(3,575)
Disposal of a subsidiary	(101)	—	—	—	(101)
Depreciation charge	(1,723)	(9,171)	(513)	(4,685)	(16,092)
Currency translation difference	7	28	—	4	39
Closing net book amount	4,204	14,257	1,146	6,590	26,197
At 31 December 2015					
Cost	7,684	42,186	2,707	22,510	75,087
Accumulated depreciation	(3,480)	(27,929)	(1,561)	(15,920)	(48,890)
Net book amount	4,204	14,257	1,146	6,590	26,197
Year ended 31 December 2016					
Opening net book amount	**4,204**	**14,257**	**1,146**	**6,590**	**26,197**
Additions	**415**	**134**	**—**	**422**	**971**
Disposals	**(1,486)**	**(3,265)**	**—**	**—**	**(4,751)**
Depreciation charge	**(1,379)**	**(5,458)**	**(525)**	**(4,407)**	**(11,769)**
Impairment charge	**—**	**—**	**—**	**(2,459)**	**(2,459)**
Currency translation difference	**9**	**13**	**—**	**6**	**28**
Closing net book amount	**1,763**	**5,681**	**621**	**152**	**8,217**
At 31 December 2016					
Cost	**4,888**	**24,435**	**2,707**	**22,610**	**54,640**
Accumulated depreciation	**(3,125)**	**(18,754)**	**(2,086)**	**(19,999)**	**(43,964)**
Impairment charge	**—**	**—**	**—**	**(2,459)**	**(2,459)**
Net book amount	**1,763**	**5,681**	**621**	**152**	**8,217**

14 PROPERTY AND EQUIPMENT (Continued)

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

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of revenue	**5,973**	9,720
Administrative expenses	**2,284**	2,062
Research and development expenses	**3,202**	3,931
Selling and marketing expenses	**310**	379
	11,769	16,092

15 INTANGIBLE ASSETS

	Game Intellectual Properties and Licences RMB'000	Computer Software Licences RMB'000	Goodwill RMB'000	Total RMB'000
At 1 January 2015				
Cost	107,350	12,892	1,586	121,828
Accumulated amortisation	(39,928)	(2,616)	—	(42,544)
Net book amount	67,422	10,276	1,586	79,284
Year ended 31 December 2015				
Opening net book amount	67,422	10,276	1,586	79,284
Additions	21,804	588	—	22,392
Disposal of a subsidiary	(4,042)	(195)	—	(4,237)
Amortisation charge	(31,523)	(1,724)	—	(33,247)
Impairment of intangible assets	(5,774)	—	—	(5,774)
Currency translation difference	231	1	—	232
Closing net book amount	48,118	8,946	1,586	58,650
At 31 December 2015				
Cost	101,597	11,859	1,586	115,042
Accumulated amortisation	(47,626)	(2,913)	—	(50,539)
Impairment of intangible assets	(5,853)	—	—	(5,853)
Net book amount	48,118	8,946	1,586	58,650

15 INTANGIBLE ASSETS (Continued)

	Game Intellectual Properties and Licences RMB'000	Computer Software Licences RMB'000	Goodwill RMB'000	Total RMB'000
Year ended 31 December 2016				
Opening net book amount	48,118	8,946	1,586	58,650
Additions	9,896	13	—	9,909
Disposals	(778)	—	—	(778)
Amortisation charge	(21,253)	(1,534)	—	(22,787)
Impairment of intangible assets	(26,153)	—	(1,586)	(27,739)
Currency translation difference	122	4	—	126
Closing net book amount	9,952	7,429	—	17,381
At 31 December 2016				
Cost	80,921	11,658	1,586	94,165
Accumulated amortisation	(38,667)	(4,229)	—	(42,896)
Impairment of intangible assets	(32,302)	—	(1,586)	(33,888)
Net book amount	9,952	7,429	—	17,381

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

	Year Ended 31 December	
	2016 RMB'000	2015 RMB'000
Cost of revenue	11,051	22,023
Selling and marketing expenses	1,354	36
Administrative expenses	925	1,033
Research and development expenses	9,457	10,155
	22,787	33,247

16 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Assets as per balance sheet		
Loans and receivables:		
– Trade receivables	**40,480**	71,927
– Other receivables (excluding prepayments)	**7,057**	22,888
– Restricted cash	**807**	674
– Short-term deposits	**448,997**	200,000
– Cash and cash equivalents	**267,986**	927,129
Financial assets at fair value through profit or loss	**319,922**	15,651
Available-for-sale financial assets	**23,150**	122,255
	1,108,399	1,360,524
Liabilities as per balance sheet		
Financial liabilities at amortised cost		
– Trade payables	**26,652**	24,091
– Other payables and accruals (excluding advance, accrued payroll and other tax liabilities)	**40,479**	16,739
	67,131	40,830

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Listed securities	**1,470**	3,446
Unlisted securities	**318,452**	12,205
	319,922	15,651
At 1 January	**15,651**	21,054
Addition	**300,488**	—
Changes in fair value (Note 8)	**(9,791)**	(6,323)
Currency translation differences	**13,574**	920
At 31 December, all non-current	**319,922**	15,651
Total losses for the year included in profit or loss for assets held at the end of the year, under "Other losses"	**(9,791)**	(6,323)
Change in unrealised losses for the year included in profit or loss for assets held at the end of the year	**(9,791)**	(6,323)

On 27 September 2016, the Company completed an investment in certain convertible bonds issued by Yinker Inc. ("Yinker") at a total consideration of USD45,194,000 (equivalent to RMB300,488,000). Yinker and its subsidiaries are principally engaged in the provision of internet finance business in the PRC. Assuming the conversion rights attaching to the convertible bonds were exercised in full, the Company would receive preferred shares issued by Yinker representing approximately 15.01% of the then existing issued share capital of Yinker on an as-converted and fully diluted basis.

The accounting treatments for the investment in the convertible bonds are assessed to be a hybrid instrument with embedded derivatives not closely related to the host contract. The Group had designated the entire hybrid instrument contract as a financial asset at fair value through profit or loss, instead of bifurcating the embedded derivatives from the host contract. Fair value change is recorded in other gains/losses in the consolidated statement of comprehensive loss. The Group determined the fair values as at period end base on the discounted cash flow analysis with binomial option pricing model and equity allocation model (Note 3.3 (c)). As at 31 December 2016, the fair value of the investment amounted to RMB314,032,000. The estimated fair value would have been RMB4,553,000 lower and RMB5,213,000 higher, should the weighted average cost of capital used in discounted cash analysis higher/lower by 5% from estimates disclosed in Note 3.3(c).

The carrying amounts of the remaining financial instruments are listed shares measured at market quoted price; and unlisted shares measured with valuation techniques, such as market multiple of comparable companies.

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
At 1 January 2016	**122,255**	138,140
Additions	**14,160**	18,590
Change in fair value	**(5,202)**	1,046
Impairment loss	**(108,063)**	(35,521)
At 31 December 2016	**23,150**	122,255

Taking into account of the challenging and competitive market conditions and rapid changes in the game industry, directors of the Company performed an assessment on the fair values of its investments in available-for-sale financial assets with discounted cash flow analysis and made an impairment provision of RMB113,265,000 against their carrying amounts RMB108,063,000 was recognised as impairment loss and RMB5,202,000 was accounted for as fair value change in other comprehensive income.

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

19 TRADE RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Third parties	**62,217**	76,372
Related parties (Note 31(b))	**1,919**	3,343
	64,136	79,715
Less: provision for impairment	**(23,656)**	(7,788)
	40,480	71,927

As at 31 December 2016 and 2015, the fair values of trade receivables were approximately similar to their carrying amounts.

19 TRADE RECEIVABLES (Continued)

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
0-30 days	**11,055**	20,673
31-60 days	**7,052**	17,299
61-90 days	**5,623**	7,144
91-180 days	**12,030**	13,705
181-365 days	**11,262**	9,732
Over 1 year	**17,114**	11,162
	64,136	79,715

(b) Credit sales are mainly derived from the Game Product business in which the Group contracts with various third party platforms to publish games and it is entitled to the proceeds collected from sales of in-game virtual items on its behalf by these platforms. The normal credit term granted by the Group was from 60 to 180 days from respective transaction dates. As at 31 December 2016, trade receivables which had been past due but not impaired amounted to RMB11,318,000. These receivables were due from a number of game platforms which were assessed by the Company to have no significant financial difficulties and they could be recovered based on past trading and repayment history. The maximum age of this category of trade receivables is less than two years.

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

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of year	**7,788**	4,197
Provision for impairment	**15,813**	3,621
Reversal	**(114)**	(30)
Currency translation differences	**169**	—
At end of year	**23,656**	7,788

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

19 TRADE RECEIVABLES (Continued)

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**45,494**	60,641
US$	**14,757**	9,594
Others	**3,885**	9,480
	64,136	79,715

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

(f) As at 31 December 2016, 23% (2015: 24%) of trade receivables were due from 2 large customers in cooperation with the Group for its webgames and mobile games business, respectively.

20 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Included in non-current assets		
Rental and other deposits	**500**	2,072
Others	**683**	338
	1,183	2,410
Included in current assets		
Prepayments to game developers	**12,677**	11,832
Prepayments for outsourcing services	**7,358**	5,208
Prepaid advertising costs	**5,342**	6,106
Rental and other deposits	**2,151**	364
Interest receivable	**1,258**	16,883
Others	**6,101**	8,125
	34,887	48,518
Less: provision for impairment	**(24,775)**	(4,843)
	10,112	43,675

20 PREPAYMENTS AND OTHER RECEIVABLES (Continued)

(a) The carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximate their fair values due to their short maturity at the reporting date. As at 31 December 2016, there were no significant balances that were past due except for those provided for impairment loss (2015: Nil).

(b) The maximum exposure to credit risk as at the reporting date is the carrying value of each class of other receivables mentioned above. The Group does not hold any collateral as security.

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

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of year	**4,843**	—
Provision for impairment	**19,815**	4,843
Currency translation differences	**117**	—
At end of year	**24,775**	4,843

The provision of RMB19,815,000 was made against the carrying amount of prepayments and other receivables due from that certain debtors were in default.

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

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

(a) Cash and cash equivalents

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cash at bank and on hand	**264,123**	916,095
Cash at other financial institutions	**3,863**	11,034
Cash and cash equivalents	**267,986**	927,129
Maximum exposure to credit risk	**267,986**	927,129

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**251,568**	902,113
US$	**5,643**	13,433
HK$	**8,418**	10,340
NT$	**2,357**	1,243
	267,986	927,129

(b) Short-term deposits

As at 31 December 2016, the short-term deposits amounted to RMB448,997,000 (2015: RMB200,000,000) were bank deposits with original maturity of three or six months and redeemable on maturity. The short-term deposits are denominated in USD and RMB, the weighted average effective interest rate was 1.57% (2015: 4.32%).

(c) Restricted cash

As at 31 December 2016, RMB807,000 (2015: RMB674,000) were restricted deposits held at bank as collateral for credit card.

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

	Note	Number of Ordinary Shares	Nominal Value of Ordinary Shares US$'000	Share Capital RMB'000	Share Premium RMB'000	Shares held for Restricted Share Units Scheme RMB'000	Total RMB'000
Ordinary shares, issued and fully paid:							
As at 1 January 2015		127,054,229	13	80	1,934,534	—	1,934,614
Employee share-based compensation scheme:							
– Shares issued upon exercise of employee share options (Note 24(a))	b	520,034	—	—	—	—	—
New shares issued for placement	c	19,041,900	2	12	248,237	—	248,249
Repurchase and cancellation of shares	d	(7,346,400)	(1)	(4)	(82,994)	—	(82,998)
As at 31 December 2015		139,269,763	14	88	2,099,777	—	2,099,865
Employee share-based compensation scheme:							
– Shares purchased for Restricted Share Units Scheme	a	(1,065,000)	—	—	—	(7,836)	(7,836)
– Vesting of shares of Restricted Share Units Scheme	a	1,065,000	—	—	303	7,836	8,139
– Shares issued upon exercise of employee share options (Note 24(a))	b	681,946	—	1	—	—	1
Repurchase and cancellation of shares	d	(2,395,500)	—	(2)	(26,180)	—	(26,182)
As at 31 December 2016		137,556,209	14	87	2,073,900	—	2,073,987

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

Notes:

(a) During the year, the Restricted Share Units Scheme Trust (Note 11a) acquired 1,065,000 then existing issued ordinary shares (2015: Nil) from the open market. The total consideration was HK$8,825,000 (equivalent to RMB7,836,000) (2015: Nil).

During the year, a total of 1,065,000 restricted share units (2015: Nil) were vested (Note 24(c)). The total cost of these vested shares was RMB8,139,000 (2015: Nil). RMB303,000 was credited to share premium in respect of vesting of certain shares whose fair values were higher than the costs.

(b) During the year, employee share options granted under the Pre-IPO Share Option Scheme were exercised to subscribe for 681,946 shares (2015: 520,034 shares) at a consideration of RMB1,000 (2015: Nil).

(c) The Company allotted and issued an aggregate of 19,041,900 shares to certain individuals and institutions at the placing price of HK$16.50 per share on 5 June 2015. The gross proceeds received from the share placement amounted to HK$314,191,350 (equivalent to RMB251,475,600) and the net proceeds, after the deduction of the placing commission and other related expenses, were approximately HK$310,160,000 (equivalent to RMB248,249,000).

(d) For the year ended 31 December 2016, the Company repurchased an aggregate of 2,395,500 (2015: 7,346,400) ordinary shares at an average price of HK$12.86 per share (2015: HK$13.75 per share) for an aggregate consideration of HK$30,812,000, equivalent to RMB26,182,000 (2015: HK$101,017,000, equivalent to RMB82,998,000) under the share buy-back mandates approved in the annual general meeting.

23 RESERVES

	Capital Reserve RMB'000 (Note a)	Statutory Reserves RMB'000 (Note b)	Share-based Compensation Reserve RMB'000	Translation Differences RMB'000	Other Reserves RMB'000	Total RMB'000
At 1 January 2015	30,000	10,828	180,292	28,070	(366,265)	(117,075)
Value of employee service						
– Pre-IPO Share Option Scheme	—	—	3,824	—	—	3,824
– Post-IPO Share Option Scheme	—	—	5,768	—	—	5,768
Currency translation differences	—	—	—	3,535	—	3,535
Change in value of available-for-sale financial assets	—	—	—	—	889	889
Share of other net asset changes in associates' equity (Note 11b)	—	—	—	—	2,309	2,309
At 31 December 2015	30,000	10,828	189,884	31,605	(363,067)	(100,750)
At 1 January 2016	**30,000**	**10,828**	**189,884**	**31,605**	**(363,067)**	**(100,750)**
Value of employee service						
– Pre-IPO Share Option Scheme	**—**	**—**	**1,263**	**—**	**—**	**1,263**
– Post-IPO Share Option Scheme	**—**	**—**	**961**	**—**	**—**	**961**
– Restricted Share Units Scheme	**—**	**—**	**14,048**	**—**	**—**	**14,048**
Currency translation differences	**—**	**—**	**—**	**35,783**	**—**	**35,783**
Change in value of available-for-sale financial assets – Gross	**—**	**—**	**—**	**—**	**(5,202)**	**(5,202)**
Change in value of available-for-sale financial assets – Tax	**—**	**—**	**—**	**—**	**780**	**780**
Transfer out of share of other net asset changes in associates' equity (Note 11b)	**—**	**—**	**—**	**—**	**(4,040)**	**(4,040)**
Vesting of shares of Restricted Share Units Scheme (Note 24(c))	**—**	**—**	**(8,139)**	**—**	**—**	**(8,139)**
At 31 December 2016	**30,000**	**10,828**	**198,017**	**67,388**	**(371,529)**	**(65,296)**

23 RESERVES (Continued)

Notes:

(a) Capital reserve of the Group arises from capital contribution by the Founders pursuant to the Group reorganisation.

(b) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group, it is required to appropriate 10% of the annual net profits, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital of the companies incorporated in the PRC, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be capitalised as capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve funds. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not be made.

24 SHARE-BASED PAYMENTS

(a) Pre-IPO Share Option Scheme

On 31 October 2012, the Board of Directors of the Company approved the establishment of a Pre-IPO Share Option Scheme with the objective to recognise and reward the contribution of eligible directors, employees and other persons to the growth and development of the Group.

The exercise price of the granted options shall be the par value of the ordinary shares as amended as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

The options are conditionally vested on the employee completing a certain period of service, which is mutually agreed by the employees and the Company. In addition, the options are only exercisable after the listing of the Company's shares on any internationally recognised stock exchange of the Company ("performance condition") and the grantees remain employed by the Group.

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

On 1 January, 1 July, and 1 September 2013, 5,385,611, 898,800 and 156,500 share options were granted under the scheme, respectively.

24 SHARE-BASED PAYMENTS (Continued)

(a) Pre-IPO Share Option Scheme (Continued)

Movements of the number of share options outstanding and their related weighted average exercise prices are as follows:

		Pre-IPO Share Option Scheme Number of Share Options Year Ended 31 December	
	Exercise Price	**2016**	2015
At beginning of year		**2,091,934**	3,400,276
Exercised	US$0.0001	**(681,946)**	(520,034)
Forfeited	US$0.0001	**(216,265)**	(788,308)
At end of year		**1,193,723**	2,091,934

As a result of the options exercised during the year, 681,946 ordinary shares were issued by the Company (Note 22). The weighted average price of the shares immediately before the dates on which the options were exercised was HK$8.85 (equivalent to RMB7.58) per share.

As at 31 December 2016, all share options granted would expire in 2022 with an average exercise price of US$0.0001 per share option. The fair value of share options was determined at the respective grant dates.

The Company has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the Company with their best estimate. The discount rate for pre-IPO share option adopted was estimated by the weighted average cost of capital, which was 23% as at the respective grant dates.

24 SHARE-BASED PAYMENTS (Continued)

(a) Pre-IPO Share Option Scheme (Continued)

Based on fair value of the underlying ordinary share, the Company has used Binomial option-pricing model to determine the fair value of the share option as at the grant date. The weighted average fair value of pre-IPO options granted on 1 January, 1 July, and 1 September 2013 was US$3.03 (equivalent to RMB19.02), US$4.88 (equivalent to RMB30.26) and US$5.12 (equivalent to RMB31.61) per option, respectively. Key assumptions are set as below:

	Pre-IPO Share Option Scheme 1 January 2013	Pre-IPO Share Option Scheme 1 July and 1 September 2013
Risk-free interest rate	1.84%	2.51%
Volatility	60.33%	56.42%
Dividend yield	—	—

The Company estimated the risk-free interest rate based on the yield of US Treasury Strips with maturity equal to the option life of the share option. Volatility was estimated at grant date based on the average of historical volatilities of the comparable companies with duration commensurate to the time to reach maturity of the respective share options. Dividend yield is determined based on management estimates made as at the grant date.

During the year, the Company recorded share based compensation of RMB1,263,000 (2015: RMB3,824,000) related to Pre-IPO Share Option Scheme.

(b) Post-IPO Share Option Scheme

On 1 September 2013, the Board of Directors of the Company approved the establishment of a Post-IPO Share Option Scheme with the objective to reward eligible directors, employees and other persons for their past contribution to the success of the Group, and to provide incentives to them to further contribute to the Group.

The exercise price of the granted options represents the highest of (i) the closing price per share as stated in the Main Board of The Stock Exchange of Hong Kong Limited's daily quotations sheet on the offer dates; (ii) the average closing prices per share as stated in the Main Board of The Stock Exchange of Hong Kong Limited's daily quotations sheets for the 5 business days immediately preceding the offer dates; and (iii) the nominal value of a share.

24 SHARE-BASED PAYMENTS (Continued)

(b) Post-IPO Share Option Scheme (Continued)

The options are conditionally vested upon the employee completing 2 years of service from the offer date, which is mutually agreed by the employees and the Company.

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

On 2 January and 10 June 2015, 1,908,000 and 3,845,000 share options were granted under the scheme, respectively.

For those share options granted on 10 June 2015, the Group and the grantees agreed they are subject to certain non-market performance vesting conditions which are related to the financial performance of the Group during the vesting period.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Post-IPO Share Option Scheme Year Ended 31 December			
	2016		2015	
	Average Exercise Price	**Number of Share Options**	Average Exercise Price	Number of Share Options
At beginning of year		**5,383,000**		—
Granted	**—**	**—**	HK$21.08	5,753,000
Forfeited	**HK$23.93**	**(3,105,000)**	HK$14.61	(370,000)
At end of year		**2,278,000**		5,383,000

As at 31 December 2016, all share options granted will expire in 2019 with an average exercise price of HK$18.24 per share option.

The fair value of share options was determined at the respective grant dates.

24 SHARE-BASED PAYMENTS (Continued)

(b) Post-IPO Share Option Scheme (Continued)

Based on fair value of the underlying ordinary share, the Company has used Binomial option-pricing model to determine the fair value of the share option as at the grant date. The weighted average fair value of post-IPO options granted on 2 January and 10 June 2015 was HK$5.78 (equivalent to RMB4.62) and HK$9.17 (equivalent to RMB7.33). Key assumptions are set as below:

	Post-IPO Share Option Scheme 2 January 2015	**Post-IPO Share Option Scheme 10 June 2015**
Risk-free interest rate	1.35%	1.01%
Volatility	53.64%	54.49%
Dividend yield	—	—

The Company estimated the risk-free interest rate based on the yield of Hong Kong Foreign Exchange Fund Bonds with a maturity life equal to the option life of the share option at the grant date. Volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share option. Dividend yield is based on management estimation at the grant date.

During the year, the Company recorded share based compensation of RMB961,000 (2015: RMB5,768,000) related to Post-IPO Share Option Scheme.

24 SHARE-BASED PAYMENTS (Continued)

(c) Restricted Share Units Scheme

On 13 September 2013, the Board of Directors of the Company approved to adopt a Restricted Share Units Scheme. During the year ended 31 December 2016, the Company granted 4,260,000 restricted share units to certain directors and employees of the Group (collectively, the "Grantees") pursuant to the Restricted Share Units Scheme at the grant date fair value of HK$8.88 (equivalent to RMB7.64) for each restricted share unit. The fair value of restricted share units granted to employees is measured with reference to the closing price of the ordinary share of the Company at the grant date and recognised as staff costs with a corresponding increase in the capital reserve within equity.

The vesting schedule of the restricted share units as follows:

Percentage of the restricted share units	**Date of vesting of the relevant percentage of the restricted share units**
25%	1 December 2016
25%	1 June 2017
25%	1 December 2017
25%	1 June 2018

During the year ended 31 December 2016, the Company recorded share based compensation of RMB14,048,000 (2015: Nil) related to Restricted Share Units Scheme.

Upon vesting and transfer to the Grantees, the related costs of the shares are credited to Shares held for Restricted Share Units Scheme, and the related fair value of the shares are debited to share-based compensation reserve. The difference between the cost and the fair value of the shares is credited to share premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost.

25 DEFERRED REVENUE

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Included in non-current liabilities	**410**	1,358
Included in current liabilities	**10,854**	14,029
	11,264	15,387

Deferred revenue primarily comprised the unamortised virtual items in the Group's Game Product service, which the Group continued to have obligations as at the reporting date, as described in Note 2.21. Deferred revenue will be recognised as revenue when all of the revenue recognition criteria are met. As at 31 December 2016, the deferred revenue associated with Game Product service amounted to RMB5,586,000.

26 TRADE PAYABLES

Trade payables primarily related to the purchase of services for server custody, content costs, agency fees and revenue to be shared and be payable to game developers.

The aging analysis based on recognition date of trade payables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
0-30 days	**7,183**	6,790
31-60 days	**3,238**	2,731
61-90 days	**3,199**	3,423
91-180 days	**9,188**	2,400
181-365 days	**1,712**	5,647
Over 1 years	**2,132**	3,100
	26,652	24,091

Trade payables were denominated in RMB and the fair values of these balances approximate their carrying amounts at the reporting date.

27 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Advertising expenses accruals	**27,400**	1,148
Staff costs and welfare accruals	**21,410**	17,645
Professional service fees payable	**2,527**	3,322
Advance from game operators	**2,034**	1,827
Rental payable	**1,323**	2,348
Others	**9,413**	13,773
	64,107	40,063

Other payables and accruals were primarily denominated in RMB and the fair values of these balances approximated their carrying amounts at the reporting date.

28 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	**—**	11,482
– to be recovered within 12 months	**—**	1,204
	—	12,686
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**64**	844
Deferred income tax (liabilities)/assets - net	**(64)**	11,842

28 DEFERRED INCOME TAX (Continued)

The movements of deferred income tax are as follows:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**11,842**	17,623
Credit to the profit or loss (Note 12)	**(12,686)**	(5,624)
Charge relating to components of other comprehensive income (Note 12(f))	**780**	(157)
At end of the year	**(64)**	11,842

The movements in deferred income tax assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Deferred Revenue RMB'000	Accruals RMB'000	Accumulated Loss RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	2,664	5,898	8,721	1,027	18,310
Recognised in the profit or loss	(1,552)	(5,806)	(1,193)	2,927	(5,624)
At 31 December 2015	1,112	92	7,528	3,954	12,686
Recognised in the profit or loss	(1,112)	(92)	(7,528)	(3,954)	(12,686)
At 31 December 2016	—	—	—	—	—

28 DEFERRED INCOME TAX (Continued)

The movements in deferred income tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

	Available-for-sale Financial Assets RMB'000
At 1 January 2015	687
Charge relating to components of other comprehensive income	157
At 31 December 2015	844
Charge relating to components of other comprehensive income	(780)
At 31 December 2016	64

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB36,359,000 (2015: RMB6,733,000) in respect of losses amounting to RMB242,393,000 (2015: RMB53,867,000) that can be carried forward against future taxable income. Accumulated losses amounting to RMB61,793,000, RMB72,185,000, RMB108,415,000, as at 31 December 2016 will expire in 2019, 2020 and 2021, respectively.

29 CASH USED IN OPERATIONS

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Loss before income tax	**(383,014)**	(124,476)
Adjustments for:		
– Depreciation of property and equipment (Note 14)	**11,769**	16,092
– Impairment of property and equipment (Note 14)	**2,459**	—
– Amortisation of intangible assets (Note 15)	**22,787**	33,247
– Impairment of intangible assets(Note 15)	**27,739**	5,774
– Loss on disposal of property and equipment (Note a)	**3,400**	1,899
– Changes in the value of financial assets at fair value through profit or loss (Note 17)	**9,791**	6,323
– Share-based compensation expenses (Note 24)	**16,272**	9,592
– Loss on disposal of a subsidiary	**—**	5,958
– Share of (income)/loss of investments accounted for using the equity method (Note 11b)	**(2,047)**	13,880
– Gain on dilution of investments accounted for using the equity method (Note 11b)	**(3,907)**	(1,333)
– Finance income – net (Note 10)	**(8,701)**	(8,562)
– Impairment of associates (Note 11b)	**22,219**	19,418
– Impairment of available-for-sale financial assets (Note 18)	**108,063**	35,521
– Exchange losses, net	**2,323**	1,557
Changes in working capital:		
– Trade receivables	**31,447**	14,540
– Prepayments and other receivables	**32,327**	17,604
– Trade payables	**4,959**	6,462
– Other payables and accruals	**29,222**	(33,671)
– Deferred revenue	**(4,123)**	(20,237)
Cash used in operations	**(77,015)**	(412)

29 CASH USED IN OPERATIONS (Continued)

(a) In the consolidated statement of cash flows, proceeds from sale of property and equipment comprise:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net book amount (Note 14)	**4,751**	3,575
Loss on disposal of property and equipment (Note 8)	**(3,400)**	(1,899)
Net change in receivable arising from disposal of property and equipment	**(511)**	798
Proceeds from disposal of property and equipment	**840**	2,474

30 COMMITMENTS

(a) Capital commitments

As at 31 December 2016, the capital expenditure contracted but not provided for amounted to RMB2,250,000 (2015: RMB1,285,000), which were related to investment arrangements and acquisition of intangible assets.

(b) Operating lease commitments

The Group leases buildings for daily operation under non-cancellable operating leases. The lease expenditure charged to the profit or loss during the year is disclosed in Note 6.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
No later than 1 year	**4,190**	11,120
Later than 1 year and no later than 5 years	**588**	6,795
	4,778	17,915

31 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Significant transactions with related parties

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
(i) Revenue derived from the Group's provision of services to related parties		
Associates	**252**	2,965

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
(ii) Content cost to related parties who provided publishing services to the Group for game operation		
Associates	**5,417**	1,055

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
(iii) Sales of equipment		
Associates	**21**	237

(b) Year end balances arising from sales and purchase of services

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
(i) Receivable from related parties		
Associates	**1,919**	3,343
Less: provision for impairment	**(1,640)**	—
	279	3,343

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Year end balances arising from sales and purchase of services (Continued)

The receivables due from related parties mainly arose from the revenue sharing generated from games operated and published by related parties.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
(ii) Other receivables due from related parties		
An associate	**341**	237
Less: provision for impairment	**(237)**	—
	104	237

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
(iii) Prepayment to related parties		
An associate	**379**	180

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
(iv) Payable to related parties		
Associates	**2,296**	2,003

The payables due to related parties arose from revenue sharing generated from games developed/operated by the related parties, which the Group provides the game platform and related publishing services. The Group is obliged to share the income with the related parties according to provisions stipulated in the respective cooperation agreements.

Balances with related parties were all unsecured, interest-free and had no fixed repayment terms.

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensations

Key management includes directors, CEO and other senior executives. The aggregate compensation paid/payable to key management for employee services is as follows:

	Year Ended 31 December	
	2016	2015
	RMB'000	RMB'000
Fees, Wages, salaries and bonuses	**4,382**	3,817
Pension costs – defined contribution plans	**84**	60
Other social security costs and housing benefits	**169**	135
Share-based compensation expenses	**11,225**	4,958
	15,860	8,970

32 CONTINGENCIES

As at 31 December 2016, the Group did not have any significant unrecorded contingent liabilities.

33 SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2016 to the approval date of these financial statements by the Board of Directors on 28 March 2017.

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

		As at 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**181,956**	169,708
Financial assets at fair value through profit or loss		**314,032**	—
Amounts due from subsidiaries		**297,655**	957,231
		793,643	1,126,939
Current assets			
Amounts due from subsidiaries		**76,612**	31,936
Prepayments and other receivables		**1,004**	485
Cash and cash equivalents		**1,254**	10,712
Short-term deposits		**329,302**	—
		408,172	43,133
Total assets		**1,201,815**	1,170,072
EQUITY			
Share capital		**87**	88
Share premium		**2,073,900**	2,099,777
Reserves	(a)	**(77,757)**	(143,768)
Accumulated losses	(a)	**(794,944)**	(786,311)
Total equity		**1,201,286**	1,169,786
LIABILITIES			
Current liabilities			
Other payables and accruals		**529**	286
Total liabilities		**529**	286
Total equity and liabilities		**1,201,815**	1,170,072

The balance sheet of the Company was approved by the Board of Directors on 28 March 2017 and was signed on its behalf.

WANG Dongfeng	**LIANG Na**
Director	*Director*

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(a) Reserve movement of the Company

	Accumulated losses RMB'000	Reserves RMB'000
Balance at 1 January 2015	(783,625)	(163,885)
Currency translation differences	—	10,525
Value of employee services	—	9,592
Loss for the year	(2,686)	—
Balance at 31 December 2015	(786,311)	(143,768)
Currency translation differences	—	57,878
Value of employee services	—	16,272
Vesting of shares of Restricted Share Units Scheme	—	(8,139)
Loss for the year	(8,633)	—
Balance at 31 December 2016	(794,944)	(77,757)

35 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives' emoluments

The remuneration of each director and chief executive is set out below:

For the year ended 31 December 2016:

Name	Fees RMB'000	Salaries and Discretionary Bonus RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Housing Allowance RMB'000	Estimated monetary value of other benefits (note i) RMB'000	Total RMB'000
Executive Directors						
Wang Dongfeng (ii)	—	478	57	40	1,686	2,261
Liang Na (iii)	—	914	8	7	2,867	3,796
Non-executive directors						
Tung Hans(iv)	—	—	—	—	—	—
Zhang Qiang(iii)	161	—	—	—	330	491
Independent non-executive directors						
How Sze Ming (vii)	266	—	—	—	330	596
Poon Philana Wai Yin	266	—	—	—	330	596
Zhao Cong Richard	266	—	—	—	330	596
	959	1,392	65	47	5,873	8,336

35 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executives' emoluments (Continued)

For the year ended 31 December 2015:

Name	Fees RMB'000	Salaries and Discretionary Bonus RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Housing Allowance RMB'000	Estimated monetary value of other benefits (note i) RMB'000	Total RMB'000
Executive Directors						
Wang Dongfeng (ii)	—	477	32	38	23	570
Zhuang Jieguang (v)	—	90	2	1	1	94
Non-executive directors						
Tung Hans	—	—	—	—	—	—
Independent non-executive directors						
Levin Eric Joshua (vi)	301	—	—	—	—	301
Poon Philana Wai Yin	251	—	—	—	132	383
Zhao Cong Richard	251	—	—	—	132	383
	803	567	34	39	288	1,731

Notes:

(i) Other benefits mainly include share-based awards compensation.

(ii) Mr. Wang Dongfeng is the executive director and the chief executive officer ("CEO") of the Company.

(iii) Ms. Liang Na was appointed as an executive director and Mr. Zhang Qiang was appointed as a non-executive director with effect from 24 May 2016.

(iv) Mr. Tung Hans ceased to be a non-executive Director with effect from 24 May 2016.

(v) Mr. Zhuang Jieguang resigned from all positions with effect from 1 April 2015.

(vi) Mr. Levin Eric Joshua resigned from all positions with effect from 1 January 2016.

(vii) Mr. How Sze Ming has been appointed as an independent non-executive director of the Company with effect from 1 January 2016.

(viii) During the year, no directors waived or agreed to waive any emoluments.

(b) During the year, neither directors nor the seven highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

DEFINITIONS

"Annual General Meeting"	the annual general meeting of the Company proposed to be held on Tuesday, 23 May 2017
"ARPPU"	average revenue per paying users
"Articles"	the articles of association of the Company, as amended from time to time
"Audit and Compliance Committee"	the audit and compliance committee of the Board
"Auditor"	PricewaterhouseCoopers, the auditor of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"BVI"	the British Virgin Islands
"Cayman Islands"	the Cayman Islands
"China" or "PRC"	the People's Republic of China and, except where the context otherwise requires and only for the purpose of this annual report, excluding Hong Kong, Macau and Taiwan
"Company" or "Forgame" or "we" or "us"	Forgame Holdings Limited (雲遊控股有限公司), an exempted company incorporated in the Cayman Islands on 26 July 2011 with limited liability, whose Shares became listed on the Main Board of the Stock Exchange on the Listing Date
"Connected Persons"	has the same meaning ascribed thereto in the Listing Rules
"Connected Transaction(s)"	has the same meaning ascribed thereto in the Listing Rules
"Contractual Arrangements"	a series of contractual arrangements entered into between Feidong, the PRC Operational Entities and their respective shareholders
"Corporate Governance Code" or "CG Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"Director(s)"	director(s) of the Company
"Executive Director(s)"	executive director(s) of the Company
"Family Trusts"	Wang Trust, Keith Huang Trust, Hao Dong Trust and Zhuangjg Trust, collectively
"Feidong"	Guangzhou Feidong Software Technology Co., Ltd. (also referred to as Guangzhou Feidong Software Technology Company Limited)* (廣州菲動軟件科技有限公司), an indirect, wholly-owned subsidiary of the Company, established under the laws of the PRC on 13 June 2012

DEFINITIONS

"Feiyin"	Guangzhou Feiyin Information Technology Co., Ltd. (also referred to as Guangzhou Feiyin Information Technology Company Limited)* (廣州菲音信息科技有限公司), a limited company established under the laws of the PRC on 12 April 2004
"Financial Statements"	audited consolidated financial statements of the Company for the year ended 31 December 2016
"Foga Development"	Foga Development Co. Ltd., a company incorporated in the BVI on 25 July 2011
"Foga Group"	Foga Group Ltd. (also referred to as Foga Group Limited), a company incorporated in the BVI on 25 July 2011
"Foga Holdings"	Foga Holdings Ltd., a company incorporated in the BVI on 25 July 2011, which was established by Mr. Liao and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the Hao Dong Trust
"Foga Internet Development"	Foga Internet Development Ltd., a company incorporated in the BVI on 25 July 2011, which was established and wholly-owned by Mr. Yang and is one of the Holding Companies
"Foga Networks"	Foga Networks Development Ltd., a company incorporated in the BVI on 25 July 2011, which was established by Mr. Huang and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the Keith Huang Trust
"Foga Tech"	Foga Tech Limited, a limited company incorporated under the laws of Hong Kong on 9 August 2011 and a wholly-owned subsidiary of the Company
"Founders"	Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang, who are the founder(s) of the Company, collectively
"Group"	the Company, its subsidiaries, the PRC Operational Entities (the financial results of which have been consolidated and accounted for as the subsidiaries of the Company by virtue of the Contractual Arrangements) and their subsidiaries, collectively
"Hao Dong Trust"	a discretionary trust set up by Mr. Liao of which Managecorp Limited acts as the trustee and the discretionary beneficiary of which is Mr. Liao

DEFINITIONS

"Holding Companies"	Foga Group, Foga Networks, Foga Holdings, Foga Internet Development and Foga Development, which are the immediate holding companies of the Company established by Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang respectively, collectively
"Hong Kong" or "HK"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"ICP Licence"	internet content provision licence, a value-added telecommunications business operation licence issued by the relevant PRC government authorities with a service scope of information services
"IFRSs"	financial reporting standards and interpretations approved by the International Accounting Standards Board, and includes all International Accounting Standards and interpretations issued under the former International Accounting Standards Committee from time to time
"Independent Non-executive Director(s)"	independent non-executive Director(s) of the Company
"INK" or "Yinker"	Yinker Inc., a company incorporated under the laws of the Cayman Islands
"INK Group"	INK, its subsidiaries, its PRC operational entities whose financial results have been consolidated and accounted for as subsidiaries of INK by virtue of a series of contractual arrangements, and their subsidiaries, collectively
"IP"	intellectual property
"IPO"	initial public offering of the Shares on the Stock Exchange
"IT"	information technology
"Jieyou"	Guangzhou Jieyou Software Co., Ltd. (also referred to as Guangzhou Jieyou Software Company Limited)* (廣州捷遊軟件有限公司), a limited company established under the laws of the PRC on 7 June 2012
"Keith Huang Trust"	a discretionary trust set up by Mr. Huang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Huang and certain of his family members
"Latest Practicable Date"	7 April 2017, being the latest practicable date prior to the bulk printing and publication of this annual report

DEFINITIONS

"Ledong"	Hongkong Ledong Tech Limited (香港樂動科技有限公司), a limited company incorporated under the laws of Hong Kong on 22 March 2012 and an indirect wholly-owned subsidiary of the Company
"LIBOR"	London Inter-bank Offered Rate
"Listing Date"	3 October 2013
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
"Managecorp Limited"	Managecorp Limited, the trustee of each of the Family Trusts
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MPUs"	monthly paying users
"Mr. Huang"	Mr. Huang Weibing (黃衛兵) (alias: Huang Kai (黃凱)), one of the Founders and the settlor of Keith Huang Trust
"Mr. Liao"	Mr. Liao Dong (廖東), one of the Founders and the settlor of Hao Dong Trust
"Mr. Wang"	Mr. Wang Dongfeng (汪東風), the Chairman of the Board, an Executive Director, the Chief Executive Officer of the Company, one of the Founders and the settlor of Wang Trust
"Mr. Yang"	Mr. Yang Tao (楊韜), one of the Founders
"Mr. Zhuang"	Mr. Zhuang Jieguang (莊捷廣), an Executive Director who resigned with effect from 1 April 2015, one of the Founders and the settlor of Zhuangjg Trust
"Nomination Committee"	the nomination committee of the Board
"Non-executive Director(s)"	non-executive director(s) of the Company
"Offer Date"	the date on which the Pre-IPO Share Option(s) are offered to an eligible participant as defined in the Pre-IPO Share Option Scheme
"Placing"	the placing of the Placing Shares to professional, institutional and other investors at the placing price of HK$16.50 per Share on 5 June 2015 pursuant to the terms of the Placing Agreement

"Placing Agreement"	the placing agreement entered into by the Company with BOCOM International Securities Limited as placing agent on 22 May 2015 in relation to the Placing
"Placing Share(s)"	an aggregate of 19,041,900 Shares placed to professional, institutional and other investors pursuant to the Placing
"Post-IPO Share Options"	options to be granted under the Post-IPO Share Option Scheme
"Post-IPO Share Option Scheme"	the post-IPO share option scheme conditionally adopted by the Company on 1 September 2013, for the benefit of the Directors, members of senior management, employees and other eligible participants defined in such scheme
"PRC Operational Entities"	Feiyin, Weidong and Jieyou whose financial results have been consolidated and accounted for as subsidiaries of the Company by virtue of the Contractual Arrangements, collectively
"Pre-IPO Share Options"	options granted under the Pre-IPO Share Option Scheme
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme approved and adopted by the Shareholders on 31 October 2012, which was amended and restated on 1 September 2013, for the benefit of the Directors, members of senior management, employees and other eligible participants defined in such scheme
"Prospectus"	the prospectus of the Company dated 19 September 2013 in relation to the IPO
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"RPG(s)"	role-playing game(s)
"RSU(s)"	restricted share unit(s) granted pursuant to the RSU Scheme
"Restricted Share Unit Scheme"or "RSU Scheme"	the scheme conditionally approved and adopted by the Company on 1 September 2013 for the grant of RSUs to RSU participants following the completion of IPO
"SFO"	the Securities and Futures Ordinance of Hong Kong (chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

"Shareholders"	shareholders of the Company
"Shares"	shares of USD0.0001 each in the share capital of the Company
"State Council"	State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"TA"	TA FG Acquisitions, an exempted company incorporated in the Cayman Islands on 26 April 2012 with limited liability
"TV"	television
"United States"	the United States of America
"USD"	United States dollars, the lawful currency of the United States
"Wang Trust"	a discretionary trust set up by Mr. Wang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Wang and certain of his family members
"Weidong"	Guangzhou Weidong Internet Technology Co., Ltd. (also referred to as Guangzhou Weidong Internet Technology Company Limited)* (廣州維動網絡科技有限公司), a limited company established under the laws of the PRC on 22 January 2007
"Yunke"	Jiujiang City Yunke Internet Micro-lending Company Limited* (九江市云客網絡小額貸款有限公司), a wholly-owned subsidiary of Feiyin established under the laws of the PRC in 2016
"Yunxin"	Khorgos City Yunxin Information Technology Company Limited* (霍爾果斯市云鑫信息科技有限公司), a 70% owned subsidiary of Weidong established under the laws of the PRC in 2016
"Zhuangjg Trust"	a discretionary trust set up by Mr. Zhuang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Zhuang and certain of his family members
"*91wan*"	the self-publishing platform, namely 91wan.com

* The English name is translated for reference purpose only in this Annual Report

APPENDIX: ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Forgame Holdings Limited ("Forgame" or the "Company", together with its subsidiaries, its operational entities in the PRC and their subsidiaries, collectively the "Group") is a developer and publisher of webgames and mobile games in China.

This is our first Environmental, Social and Governance Report (this "Report") to highlight our approaches and strategies in the pursuit of sustainable development during the year ended 31 December 2016 (the "Reporting Period"). Unless otherwise stated, this Report covers the sustainability performance and initiatives of our Hong Kong office and our game development business in Guangzhou and Taipei, including (i) Guangzhou Feiyin Information Technology Co., Ltd. (廣州菲音信息科技有限公司) ("Feiyin"), (ii) Guangzhou Jieyou Software Co., Ltd. (廣州捷遊軟件有限公司) ("Jieyou"), (iii) Guangzhou Weidong Internet Technology Co., Ltd. (廣州維動網絡科技有限公司) ("Weidong"), (iv) Forgame International Co., Ltd (雲遊股份有限公司) ("Forgame TW"), (v) Guangzhou Feidong Software Technology Company Limited (廣州菲動軟件科技有限公司) ("Feidong") and (vi) Foga Tech Limited ("Foga Tech"). This Report has been prepared in accordance with the disclosure requirements of the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") .

We welcome your valuable comments and suggestions in relation to this Report and our sustainability performance. Your feedback can be sent to IR@forgame.com.

APPENDIX: ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT FORGAME

Our Mission, Vision and Philosophy

Mission

To enable millions of users to enjoy gaming at any time and at any place.

Vision

To become a global leading cloud-based game company.

Our Philosophy

Sharing	—	Empowering first-class teamwork.
Learning	—	Empowering lifelong and mutual development.
Passion	—	Empowering top-notch work efficiency.
Execution	—	Empowering the organisation's success.

The Meaning of our Logo

Overview of published games in 2016

We published 21 new games during the Reporting Period:

Mobile Games		Published Date	Genre
Self-developed Games			
1	Adventures of Ultraman (奧特超人勇闖關)	January 2016	Running
2	Ultraman: Moto Racing (奧特超人飛車大戰)	January 2016	Racing
3	Boonie Bears: Bubble War (熊出沒之泡泡大戰)	January 2016	Match-three
4	Lastcity	January 2016	ARPG
5	Ghost Blows Out the Light: Jiuyou General (鬼吹燈之九幽將軍)	January 2016	Running
6	Point Break (極盜者)	February 2016	Racing
7	Ultraman: Zombie War (奧特超人大戰僵屍)	March 2016	Shooting
8	My Date with a Vampire 2016 (我和僵屍有個約會2016)	May 2016	Shooting
9	Charmed Westward Journey H5 (醉西遊H5)	May 2016	ARPG+HTML5
10	Demon King (誕生吧!魔王殿下)	May 2016	Action+Card
11	The Fighter (熱血格鬥)	July 2016	Fighting+RPG
12	Three Kingdoms: Mergers (合體三國)	September 2016	Strategy+RPG+HTML5
13	Boonie Bears: Triumph in the Sky 1 (熊出沒之沖上雲霄)	September 2016	Shooting
14	iMadeFace2	November 2016	Selfie
15	Boonie Bears: Aircrafts (熊出沒之飛機大戰2)	December 2016	Shooting
Licensed Games			
16	Last Shot (最後一投)	March 2016	Sports
17	Wilderness Survival (荒野求生)	April 2016	Running
18	Mad Cars (熱血戰車)	June 2016	Shooting
19	Our Rules (我們的法則)	December 2016	Running
Webgames		**Published Date**	**Genre**
Self-developed Games			
20	Liberators	May 2016	Strategy
21	Master (菲動大主宰)	June 2016	ARPG

OUR APPROACH TO SUSTAINABILITY DEVELOPMENT

As a good corporate citizen, we are committed to creating sustained value for stakeholders by incorporating environmental, social and governance considerations into our operation with an aim to be a positive force to our environment and the wider community. The Group's endorsement of sustainable development not only encapsulates our environmental performance but is also rooted in our core business practices and our relationship with our shareholders, employees, users and suppliers. Details of our management approach in environmental and social aspects can be found in the different sections of this Report.

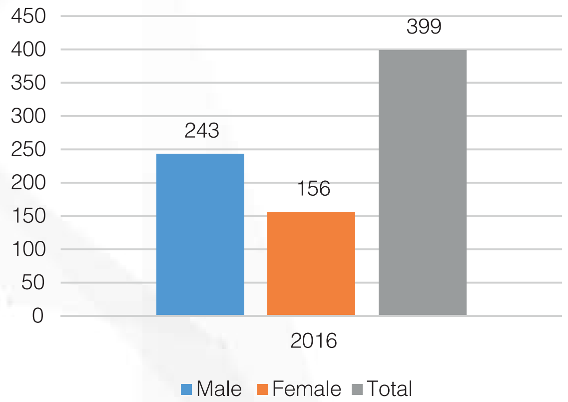
OUR STAKEHOLDER ENGAGEMENT

We believe that understanding the views of our stakeholders lays a solid foundation for our long-term growth and success. We listen to a broad spectrum of stakeholders in order to provide them with the opportunities to express their views on our sustainability performance and future strategies. To reinforce mutual trust and respect, we are committed to maintaining ongoing engagement, both formally and informally, with stakeholders to enable us to better shape our business strategies to respond to their needs and expectations, anticipate risks and strengthen key relationships. We have identified employees, users, suppliers and business partners, shareholders, government and the community at large as our key stakeholder groups. The information collected throughout the stakeholder engagement process serves as an underlying basis for the structure of this Report.

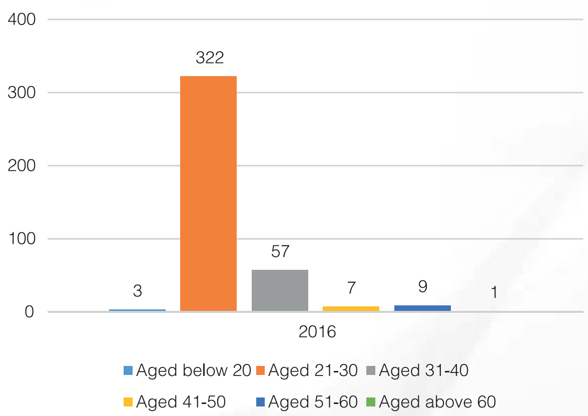
OUR PEOPLE

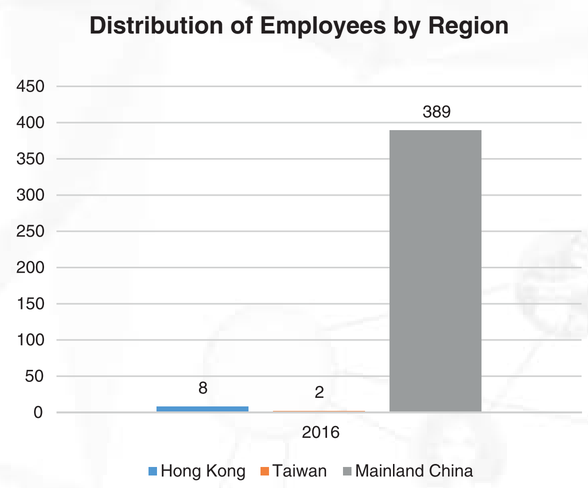
We believe that our success as a business depends on our human capital. We are dedicated to creating a pleasant, fair and transparent working environment where our employees are valued with respect. We have established clear policies and guidelines to attract and retain talents. We also devoted significant efforts and resources to supporting the career advancement of our employees and developing their potentials to enable them to grow with us. We make every effort to offer a safe, harmonious, fair, discrimination-free and diverse working environment along with competitive compensation packages and rewarding career path to attract and retain talents. In accordance with applicable labor laws (including but not limted to The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), our employee handbook sets out the standard working hours, paid leaves, rest periods and dismissal policy to safeguard the rights of our employees.

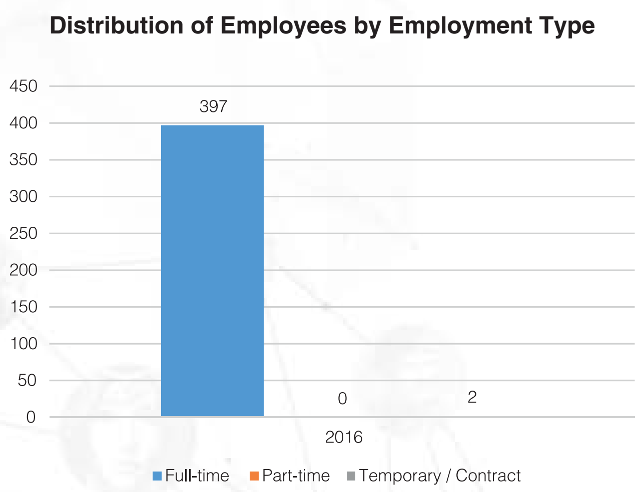
Distribution of Employees by Gender



Distribution of Employees by Age Group







Talent Acquisition and Retention

As of 31 December 2016, we employed a total of 399[1] employees across China, Hong Kong and Taiwan, including 243 male staff members and 156 female staff members. We are committed to hiring employees on a diverse basis regardless of their nationality, gender, age, family status and other facts which are irrelevant to competencies and qualifications of the candidates during the recruitment process.

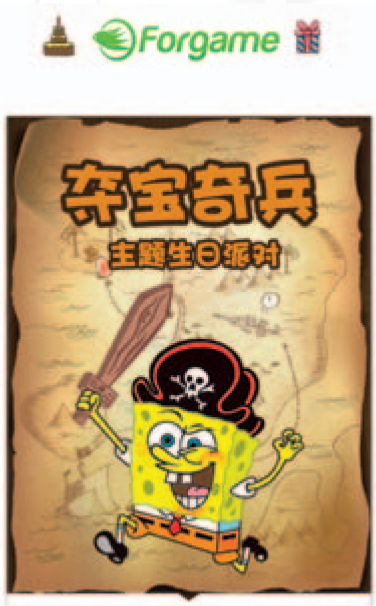
Apart from our transparent and fair hiring procedure, we are keenly aware of the significance of retaining human capital. The remuneration package is determined with reference to our employees' performance, experience and expertise. We offer competitive remuneration packages with compensation and benefits for our employees, which include five-day work week arrangement, discretionary bonuses, transportation allowance, medical benefits and long serving employees awards. For our staff in China, we strictly comply with The Social Insurance Law of the PRC (《中華人民共和國社會保險法》) for welfare protection by contributing to five types of social insurances, namely Pension Insurance, Medical Insurance, Unemployment Insurance, Maternity Insurance and Labor Injury Insurance. On top of that, we take out commercial medical insurance for our employees as a supplement. In accordance with The Regulations on the Management of Housing Funds (《住房公積金管理條例》), we are obligated to pay and deposit housing funds in full and on time. In addition, we have established a comprehensive remuneration and performance appraisal system with a set of key performance indicators and behaviour indicators to ensure that our employees receive regular performance review and appraisal. Performace appraisal will form the basis for employees' promotion and salary adjustment.

1 All the employees of the Group are included

Employee Benefits and Safeguards

We understand that employees are our most valuable assets and we strive to provide comprehensive benefits and safeguards to our employees. For example, we provide additional insurance, festival activities and gifts, free lunch or lunch allowance, free fruits, free shuttle bus and set up vending machines in office for the staff.

We attach great importance to the psychological and physical well-being of our people. We organise recreational and sport activities regularly to promote work-life balance and allow employees to relax while striving for career advancement. We reinforce team spirit and a stronger sense of belonging through these activities. In order to enhance the well-being of our people, we organise sport activities weekly and festive events, and celebrate birthday for staff on a monthly basis. Additionally, we organise corporate travel and department-based activities to facilitate communication among our staff.



We organised themed birthday parties for the birthday stars of the month.

Training and Development

The skills, knowledge and capabilities of our employees are the pillars of our sustainable development. They transform our visions into actions. Seeing employees as part of our family, we are dedicated to unlocking their potential to the fullest in their life-long pursuit of excellence through internal and external training and development programs. We believe that investing in our people is not only advantageous to their personal and career development but also to the sustainability of the long-term growth of the Group as a whole.

Below are some of the training courses offered by the Group during the Reporting Period:

- New Employee Training
- Management Sharing Session
- Intellectual Properties Knowledge Training
- Interview Skills Training
- New Media Application Skills Sharing
- APP Development and Practice Sharing
- HTML5 Game Operation Ideas Sharing

During the Reporting Period, the average training hours of senior management, middle level management and new employees of the Group are 10.17 hours, 18.43 hours and 3.35 hours respectively.

Health and Safety

Although our operation is predominantly office-based, we adhere to The Labor Law of the PRC(《中華人民共和國勞動法》) and other applicable laws and regulations to provide a safe and healthy workplace in order to protect our employees from occupational hazards. The following measures have been implemented to ensure the health and safety of our staff:

Health	**Annual Medical Checkup:** We arrange annual medical checkup for all staff to bolster our people's mental and physical health. **Chinese Medicine Practitioner Consultation:** We invite Chinese medicine practitioners to do massage, cupping, acupuncture, scraping and etc. for our people.
Safety	**Inspection of Fire Safety Equipment:** Fire alarm, fire extinguishing and smoke extraction systems are checked semi-annually or annually to ensuring safety of our office. **Fire Drill:** Fire drill is held annually.

Additionally, to enhance our indoor air quality and well-being of all employees, we create smoke-free workplaces for our employees. Smoking is prohibited in all enclosed areas within our offices without exception.

With our concerted efforts in promoting occupational health and safety, we proudly report that no work-related accidents or causalities have been reported during the Reporting Period.

In order to promote healthy lifestyle, we joined weekly running activities organised by Guangzhou Tianhe Software Park and was awarded an "Outstanding Organisation" in 2016.

Labour Practice

As an equal opportunity employer, the Group abides by the principle of equal opportunity and diversity. We have adopted an effective equal opportunity and diversity policy to treat all employees fairly regardless of their seniority, nationality, gender, age or family status. We are committed in all areas to providing a work environment that is free from discrimination, sexual harassment and unethical labor policy. As the cornerstone of our corporate culture, we continue to adopt our zero-tolerance approach for these matters.

In order to avoid any incidents of forced labour, our employee handbook, in line with The Labour Law of the PRC (《中華人民共和國勞動法》), clearly states that the maximum daily limit on hours of work is 8 hours. Employees are required to obtain approval from senior management to perform overtime work with a maximum of 36 overtime working hours per month. Compensation leave will be granted within 3 months.

In relation to matters of discrimination and sexual harassment, our employee handbook presents whistle-blowing policy and channels. The Group will promtly redress the situation upon completion of investigation for any reported incidents.

Anti-corruption

As the cornerstone of our corporate culture, we emphasise on maintaining the highest standards of integrity and honesty. We adopt a zero-tolerance policy for misconduct and maintain a well-defined whistle-blowing policy and channels for redress. We strictly abide by the governing laws and regulations of the jurisdictions where we operate. We also request all employees to conform with our requirements and policies on anti-corruption, bribery, extortion, fraud and money laundering as set out in Employee Code of Conducts. We have no hesitation in adopting disciplinary actions in relation to any proven misconduct case.

OUR SUSTAINABLE OPERATION

In spite of the fact that we do not operate in an environmentally sensitive business and are predominantly offering virtual products and services, our operations are in stringent compliance with applicable local laws and regulations concerning environmental protection such as Environmental Protection Law of People's Republic of China (2014 version) (《中華人民共和國環境保護法》), in order to minimise the emissions concerning air pollutants, greenhouse gases, and other types of wastes. Environmental considerations are taken into account in our decision-making processes and are integral parts of our corporate culture and daily operation. We have established an environmental policy to promote effective use of energy, water as well as other natural resources and to encourage green initiatives.

Electricity Consumption Management

Electricity is one of the major sources of energy-related greenhouse gas emissions. In our daily operation, we use electricity mainly for space heating and cooling, lighting and running office equipment. During the Reporting Period, we consumed a total of 957,131[2] kWh of electricity which contributed to 859.786[3] tCO_2-eq.

With an aim to mitigate emissions by managing and optimising electricity consumption, we have outlined the measures in our environmental policy which our employees are expected to follow. Some of the key measures are listed below:

- Placing energy saving notices to encourage employees to properly switch off the electronic appliances after office hours with spot check
- Advocating energy saving culture through electronic inter-communication system to employees
- Cleaning and maintaining air conditioning units regularly to ensure air handling units operate normally and function effectively
- Setting air conditioning temperature at 26℃ or above
- Utilising timer control and thermal control to switch off air conditioning units in less-occupied zones and during non-working hours to reduce idling
- Using LED lighting along corridors in some offices
- Giving priority to purchasing computer equipment with Energy Star label and China Standard Certification Center certificate

2 Our Hong Kong office operates in serviced office premises where electricity consumption is solely controlled by the building management and the provision of electricity consumption data or sub-meter for individual occupant is therefore not feasible. Thus, the data was collected from Forgame TW, Feiyin, Jieyou, Weidong and Feidong offices only.

3 The emission factors for greenhouse gas emissions associated with electricity purchased were selected with reference to the "National Development and Reform Commission (NDRC), People's Republic of China", "Bureau of Energy, Ministry of Economic Affairs in Taiwan" and "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong".

Water Consumption Management

We consumed a total of 6,168 m^3 of water[4] during the Reporting Period, corresponding to approximately 11.616 m^3 per employee. To avoid unnecessary water consumption during daily operation, the below measures are adopted:

- Installing automatic sensor system in washroom's water-tap
- Promoting water-saving culture by posting water saving slogans in our workplaces

Paper Use Management

We are committed to reducing the use of paper in the course of our operation. The key measures implemented to lower paper usage are:

- Giving priority to purchasing environmental-friendly paper
- Encouraging double-sided printing and making the best use of the printable area via appropriate typesetting
- Posting notices to remind employees of paper saving
- Promoting paperless office via the use of electronic means for document circulation
- Having paper recycling bins in place

Waste Management

Waste management is another key pillar in our sustainability journey. As a developer and publisher of cloud-based games, we are not aware of any significant generation of hazardous waste in view of our business nature. We have implemented the following key measures as waste reduction initiatives to manage and reduce our waste:

- Encouraging waste recycling through waste sorting in office areas
- Selling used electronic devices to second-hand buyers
- Sorting non-hazardous waste, including aluminum cans, paper, plastics and food waste, which would be collected by garbage collectors of property management company

4 Jieyou, Weidong, Feidong and Hong Kong office operate in leased or serviced office premises where both the water supply and discharge are solely controlled by the respective building management who consider the provision of water withdrawal and discharge data or sub-meter for individual occupants infeasible. Thus, the data was collected in respect of Feiyin and Taiwan only.

Staff Commutation

To take a further step to reduce greenhouse gas emission at large, we provide round-trip shuttle bus pick up services to our staff in order to reduce their reliance on private vehicles.

Environmental Performance Table

Indicators	Unit	2016
1. Air Emissions[5]		
1.1 Nitrogen oxides (NO_x)	tonnes	0.006
1.2 Sulfur dioxide (SO_2)	tonnes	0.0001
1.3 Particulate matter (PM_{10})	tonnes	0.0004
2. Greenhouse Gas (GHG) Emissions[6]		
Total	tCO_2-eq	1,011.189
2.1 Scope 1: Direct emissions[7]	tCO_2-eq	24.367
2.2 Scope 2: Energy indirect emissions[8]	tCO_2-eq	859,786
2.3 Scope 3: Other indirect emissions[9]	tCO_2-eq	127,035
2.4 GHG Emissions Intensity		
– By employee (Scope 1, 2, and 3)	tCO_2-eq per employee	1.904
– By employee (Scope 1)	tCO_2-eq per employee	0.046
– By employee (Scope 2)	tCO_2-eq per employee	1.619
– By employee (Scope 3)	tCO_2-eq per employee	0.239
3. Non-hazardous Waste[10]		
Total	tonnes	7.450

5 Main sources of air emissions were the use of petrol by owned vehicles.

6 GHG emissions data is presented in tonnes of carbon dioxide equivalent and was calculated with reference to the reporting requirement of the "Guidelines to Account for Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" and "Carbon Footprint Management Toolkit for Small and Medium Enterprises in Hong Kong".

7 Owned vehicles and fire extinguishers were the main emission sources of direct GHG emissions.

8 The GHG emission factors associated with electricity purchased were selected with reference to the "National Development and Reform Commission (NDRC), People's Republic of China", "Bureau of Energy, Ministry of Economic Affairs in Taiwan" and "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong".

9 The emissions included water consumption, sewage treatment, staff commutation and paper waste disposal. For staff commutation, fuel consumption and travel distance of shuttle bus for Feiyin were taken into account and only printing paper was taken into account in respect of CO2 emissions. The emission factors were selected with reference to "Guidelines to Account for Report on Greenhouse Gas Emission and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" and "Carbon Footprint Management Toolkit for Small and Medium Enterprises in Hong Kong".

10 The volume of non-hazardous waste (including metal can and bottle, plastic, paper waste, food waste and electronic equipment) was estimated based on the waste stream study conducted in Jieyou, Weidong and Feidong's offices and sales agreements with second hand dealers whom we sold electronic devices (including server, computer, tablet, mobile phone and hard disk) for recycling or reuse.

Indicators	Unit	2016
3.1 Non-hazardous Waste Intensity		
– By employee	tonnes per employee	0.014
4. Energy Consumption		
Total	kwh	1,041,424,758
Intensity by employee	kwh per employee	1,961,252
4.1 Electricity	kwh	957,131,710
4.2 Petrol[11]	kwh	84,293.048
5. Water Consumption[12]		
Total	m^3	6,168
5.1 Water Consumption Intensity		
– By employee	m^3 per employee	11,616

Remarks: There were 399 employees in the reporting scope, including Feiyin, Jieyou, Forgame TW, Weidong, Feidong.and Foga Tech.

OUR SUPPLY CHAIN

We have been dedicated to doing business with honesty and integrity in stringent compliance with applicable local laws and regulations. Since we recognised that how we cooperate with our suppliers and business partners has a significant impact on the quality of our products and services as well as our reputation, we also expect our suppliers and business partners to operate in a manner that demonstrates best practices in connection with environmental and social matters. Our code of conduct on suppliers has clearly set out our expectations on suppliers and business partners for environmental, social and ethical standards including but not limited to treating their employees fairly, maintaining a safe and healthy workplace, upholding strong business ethics to root out copyright infringement, corruption and frauds. Suppliers and business partners are required to act according to the code of conduct before entering into cooperation with us.

Additionally, we adopted clear internal policy to manage our suppliers. We procure office supply primarily from our registered suppliers. We have competitive selection process including prior evaluation, market research and internal analysis in order to select at least three qualified suppliers for each kind of supply to lower the risk where a single supplier does not satisfy the procurement requirement. We also update the list of registered suppliers by conducting thorough assessment on various aspects of their products including product quality and after-sale services.

11 Petrol consumption of our owned vehicles. Relevant conversion factor was obtained from Chapter 2 of the "Amercian Physical Society – September 2008".

12 Please refer to note 4.

OUR PRODUCTS

As a cloud-based game developer and publisher with the mission of enabling millions of users gaming at any time and at any place, we are unswervingly passionate about developing and launching a large portfolio of creative, popular and interesting games spanning genres with vivid graphics, rich content and thematic focuses in pursuit of better player experiences. In the meantime, we rigorously abide by all applicable laws and regulations of the PRC, including but not limited to the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》), the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) and the Internet Electronic Bulletin Service Administrative Measures (《互聯網電子公告服務管理規定》).

Regulation of Licence

We are obligated to obtain a variety of permits and licences for our operation of online games which include:

- Value-Added Telecommunications Licence (《中華人民共和國增值電信業務經營許可證》)
- Network Cultural Business Permit (《網絡文化經營許可證》)
- Internet Publication Licence (《互聯網出版許可證》)

Intellectual Property

The Group respects intellectual property and values its importance to our long-term business growth. We are committed to the protection of our intellectual property rights as well as the avoidance of infringement of intellectual property rights of others by establishing and implementing our "Guidelines on Prevention of Legal Risks in the Development and Operation of Online Games" (網絡遊戲研發及運營法律風險防範指引) and "Intellectual Property Management Policy" (知識產權管理制度). We rely on copyright, trademark and other intellectual property laws, including but not limited to (i) The Patent Law of PRC (《中華人民共和國專利法》); (ii) The Trademark Law of PRC (《中華人民共和國商標法》); (iii) The Copyright Law of PRC (《中華人民共和國著作權法》); (iv) Administrative Measures on China Internet Domain Name (《中國互聯網絡域名管理辦法》); and (v) The Measures Concerning Software Products Administration (《軟件產品管理辦法》), as well as confidentiality and licence agreements with our employees, suppliers and publishing partners to safeguard our own and other companies and individuals' intellectual property rights.

Before the launch of our games, our legal department will conduct strict inspection to ensure our products are in compliance with our intellectual property measures and relevant regulations. We have developed a mature self-examination system which is in full compliance with the Administrative Measures for the Content Self-examination of Internet Culture Business Entities (《網絡文化經營單位內容自審管理辦法》).

Internet Safety

As a socially responsible corporate, we regard online games safety on the Internet as our top priority. We have a series of measures in place to protect the Internet safety of our players. In order to ensure that our players use the internet electronic bulletin services (the "BBS services") which include bulletin boards, electronic forums, message boards and chat rooms properly, we are obligated to obtain specific approval before using the BBS services. Any content relating to violence, abetting crime, obscene pornography, superstition, gambling, drug abuse, cult or blood will be screened out.

In order to adhere to The Interim Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》) (the "Online Game Measures") issued by the Ministry of Commerce of the PRC, we specify the terms that must be included in the services agreements. In order to comply with the relevant regulations governing the protection of minors playing online games and the anti-addiction notice, we have implemented real-name registration system of players and set time limits of the players in order to help them maintain a healthy lifestyle and limit in-game marriages among minor players.

Personal Data Privacy

We are committed to protecting privacy and confidentiality of personal data of our employees, customers and business partners and other identifiable individuals. Our policies and guidelines have been devised to achieve this commitment to protect personal information. Our employees are required to follow our data privacy policy for collecting, using, disclosing, storing, accessing and otherwise processing personal information. For protecting our users' personal information, we are obligated to follow the Online Game Measures.

Advertising

We emphasise on maintaining the highest standards of honesty in advertisement and promotion activities. We are obligated to follow the Online Game Measures to ensure the legitimacy of online advertisement content. Promotion and advertisement are not allowed if the content relates to violence, abetting crime, obscene pornography, superstition, gambling, drug abuse, cult or blood. We also adopt internal risk mitigation guideline to supervise the advertisement and promotion activities.

CONTRIBUTIONS TO THE SOCIETY

Community Care

As a responsible enterprise, we care about our next generation. We have been dedicated to community services in relation to the education of children. In June 2016, we cooperated with a primary school located in Conghua, and conducted a visit called "愛心校園行". We had classes and communicated with the children, and donated books to them.

Charitable Donation

With an aim to help the needy, we participated in a charitable event called "2016年廣東扶貧濟困日暨羊城慈善為民" and donated RMB100,000 in June 2016.

APPENDIX: ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

KEY AWARDS AND RECOGNITION

- 2016 China 's Top 100 Internet Companies
- 2016 China's Cultural Export Focus Enterprises
- Guangdong's Most Innovative Companies Top 10 in the 2016 Guangdong Internet Conference
- Forgame members Feiyin, Jieyou, Feidong and Weidong received 2016 Industry Development Subsidies from Tianhe District, Guangzhou
- Forgame member *91wan* gaming platform was recognised as one of "2016 Top 10 Webgame Publishing Platforms in China" in the competition of "Top 10 Games" in 2016 China Gaming Industry Annual Seminar
- Forgame member Feiyin was recognised as one of "China's Top 10 Gaming Companies in Overseas Expansion"
- Co-published by Forgame and Meitu, Inc., "Beauty Box" ("美美小店"), a styling and fashion mobile game, ranked No.1 on the iOS Free Games Top Chart with more than 80% of the game reviewers assigning five-star ratings
- "Liberators", our flagship webgame for overseas markets, has been recognised as one of the "Facebook's 2016 Best Web Games"

APPENDIX: ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

References to the ESG Reporting Guide

A. Environmental		Chapter/Disclosure	Page
Aspect A1: Emissions			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		• Our Sustainable Operation	181
KPI A1.1	The types of emissions and respective emissions data.	• Environmental Performance Table	183-184
KPI A1.2	Greenhouse gas emissions in total and where appropriate, intensity.	• Environmental Performance Table	183-184
KPI A1.3	Total hazardous waste produced and where appropriate, intensity.	• Environmental Performance Table	183-184
KPI A1.4	Total non-hazardous waste produced and where appropriate, intensity.	• Environmental Performance Table	183-184
KPI A1.5	Description of measures to mitigate emissions and results achieved.	• Environmental Performance Table	183-184
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	• Waste Management	182
Aspect A2: Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.		• Environmental Performance Table	183-184
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	• Environmental Performance Table	183-184
KPI A2.2	Water consumption in total and intensity.	• Environmental Performance Table	183-184
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	• Electricity Consumption Management	181
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	• Water Consumption Management	182
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced.	• N/A	

A. Environmental		Chapter/Disclosure	Page
Aspect A3: The Environment and Natural Resources			
General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		• Electricity Consumption Management • Water Consumption Management • Paper Use Management • Waste Management • Staff Commutation	181-183
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	• Electricity Consumption Management • Water Consumption Management • Paper Use Management • Waste Management • Staff Commutation	181-183
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		• Our People • Talent Acquisition and Retention • Employee Benefits and Safeguards • Labour Practice	176-180
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	• Our People	176-177
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	• N/A	
Aspect B2: Health and Safety			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to providing a safe working environment and protecting employees from occupational hazards.		• Health and Safety	179-180
KPI B2.1	Number and rate of work-related fatalities.	• Health and Safety	179-180
KPI B2.2	Lost days due to work injury.	• Health and Safety	179-180
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	• N/A	

B. Social		Chapter/Disclosure	Page
Aspect B3: Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		• Training and Development	179
KPI B3.1	The percentage of employees trained by gender and employee category.	• N/A	
KPI B3.2	The average training hours completed per employee by gender and employee category.	• Training and Development	179
Aspect B4: Labour Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		• Labour Practice	180
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	• Labour Practice	180
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	• N/A	
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure Policies on managing environmental and social risks of the supply chain.		• Our Supply Chain	184
KPI B5.1	Number of suppliers by geographical region.	• N/A	
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	• N/A	

B. Social		Chapter/Disclosure	Page
Aspect B6: Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		• Our Products	185-186
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	• N/A	
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	• N/A	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	• Our Products	185-186
KPI B6.4	Description of quality assurance process and recall procedures.	• N/A	
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	• Our Products	185-186
Aspect B7: Anti-corruption			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		• Anti-corruption	180
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	• N/A	
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	• N/A	
Community			
Aspect B8: Community Investment			
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		• Contributions to the Society	187
KPI B8.1	Focus areas of contribution.	• N/A	
KPI B8.2	Resources contributed to the focus area.	• N/A	

Forgame