2018年報

ANNUAL REPORT

China Parenting Network Holdings Limited

中國育兒網絡控股有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 1736

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Cheng Li
Mr. Hu Qingyang
Mr. Zhang Lake Mozi

Non-Executive Directors

Ms. Li Juan *(Chairperson)*
Mr. Wu Haiming
Mr. Hsieh Kun Tse

Independent Non-Executive Directors

Mr. Wu Chak Man
Mr. Zhao Zhen
Mr. Ge Ning

BOARD COMMITTEES

Audit Committee

Mr. Wu Chak Man *(Chairperson)*
Ms. Li Juan
Mr. Ge Ning

Nomination Committee

Ms. Li Juan *(Chairperson)*
Mr. Zhao Zhen
Mr. Ge Ning

Remuneration Committee

Mr. Ge Ning *(Chairperson)*
Mr. Zhao Zhen
Mr. Cheng Li

COMPANY SECRETARY

Mr. Zhang Lake Mozi

AUTHORISED REPRESENTATIVES

Mr. Cheng Li
Mr. Zhang Lake Mozi

AUDITOR

Baker Tilly Hong Kong Limited
(effective from 30 November 2018)
Ernst & Young (up to 30 November 2018)

LEGAL ADVISERS TO OUR COMPANY

As to Hong Kong Law

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(in association with Jingtian & Gongcheng)
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15 Queen's Road Central
Hong Kong

As to PRC law

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Xuhui District, Shanghai 200031
The PRC

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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Cayman Islands

CORPORATE INFORMATION

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Nanjing, Jiangsu Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
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183 Queen's Road East
Hong Kong

PRINCIPAL BANK

Bank of Communications (Xuanwu Branch)
No. 519, Zhujiang Road, Xuanwu District
Nanjing, Jiangsu Province, The PRC

STOCK CODE

1736

COMPANY WEBSITE

www.ci123.com

HIGHLIGHTS

KEY HIGHLIGHTS

- The listing of the shares of the Company (the "Shares") has been successfully transferred from GEM to the Main Board and the dealings in the Shares on the Main Board have commenced on 8 October 2018, representing a new milestone of the Company.

- The Group's revenue increased by approximately 20.4% from approximately RMB91.1 million for the year ended 31 December 2017 to approximately RMB109.7 million for the year ended 31 December 2018.

- During the year of 2018, the monthly active users ("MAU") and daily active users ("DAU") of CI Web PC and the major mobile APPs (namely the "Pregnancy Reminder" APP and the "Mother Zone" APP) of the Company aggregated 121.10 million and 6.76 million respectively, representing an increase of 27.10% and 14.00%, respectively, as compared to that of last year.

- During the year of 2018, the Group focused on the establishment of a new mother-child ecosystem with diversified mother-child family services through expanding its business to various aspects such as healthcare, education, entertainment and new retail mode. The Group used big data and AI technologies to accurately identify potential users and enhanced its web content so as to enable the distribution of comprehensive content as well as expand its business coverage via strategic investments, with an aim to gradually upgrade its platform to become a comprehensive parenting platform, penetrating the mother-child industry and mother-child family life in all aspects.

FINANCIAL HIGHLIGHTS

The following table sets forth the consolidated statements of profit or loss and other comprehensive income of our Group for the year ended 31 December 2018.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	**109,713**	91,132
Gross profit	**78,041**	78,762
Profit for the Year	**31,649**	37,947
Attributable to:		
Owners of the parent	**30,167**	34,584
Non-controlling interests	**1,482**	3,363

CHAIRPERSON'S STATEMENT

Dear Shareholders,

On behalf of the Board of directors of China Parenting Network Holdings Limited (the "Company", "we" or "CI Web") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present to you the annual results of the Group for the year ended 31 December 2018 (the "Year" or "Reporting Period").

In 2018, under the trend of business expansion, scene exploration and intelligent application, the size of Mother-Child family service platform reached to approximately RMB5.0 billion. The composition of income of the industry will tend to be more diversified and will achieve RMB9.2 billion by 2021 with 50% market shares belongs to long-tail market. Based on the accumulated user data, the Group quantified user's nature with big data technologies to grab user's attention and achieved all-net content distribution via multiple channels and scenarios to penetrate the mother-child industry and mother-child family life in all aspects. During the Year, CI Web has been upgraded to a comprehensive platform with an aim to provide diversified mother-child family services and establish a new mother-child ecosystem, so as to expand its business to various aspects such as healthcare, education and entertainment and gradually develop a whole industry chain in the pan-mother-child industry for providing comprehensive services to business (B端) brand organizations and customers (C端).

In 2018, the coverage proportion of our sustainable online mother-child population has continued to increase. Based on the big data collected over ten years and the accumulated research and development knowledge of internet technology as well as the advantage of pageviews of our core products (such as Mother Zone APP, Pregnancy Reminder APP and CI Web PC), the Group fully utilized its forward-looking advantages and shared its resources of all platforms such as CI Web PC, WAP, Mobile APP and IPTV AP to achieve stable operation by using core measures such as quality content, technology and big data. Based on the combination with our brands in terms of content and operation, we refined our own products and enhanced user's experience by managing our intelligent data, intelligent mother-child population and intelligent strategies. We continued to extend our business to four areas, namely offline scenarios, new media alliance, influencer marketing, and e-commerce MCN, which covered new media platforms including social, consulting and e-commerce to achieve all-net content distribution. We gained a deep understanding of users by analyzing their profiles and precisely reached users by using customized and target oriented calculation methods, creating differentiated user experiences in terms of social, content and services.

Under the leadership of the Board and efforts of all employees, the Company has successfully transferred its listing status from GEM to Main Board with the Shares started trading in the Main Board since 8 October 2018, creating a new milestone. The Group is also pleased to announce that, for the year ended 31 December 2018, the Group recorded revenue of RMB109.7 million, representing an increase of 20.4% over that of last year. During the year of 2018, the MAU and DAU of CI Web PC and the major mobile APPs (namely the "Pregnancy Reminder" APP and the "Mother Zone" APP) of the Company aggregated 121.10 million and 6.76 million respectively, representing an increase of 27.10% and 14.00%, respectively, as compared to that of last year.

Focusing on sound environment management, the Group is deeply aware of the importance of sustainable development of the environment to the continuous operation of our business. We integrate environmental protection concept into our course of business and strive to perform our corporate social responsibility to protect the environment. In respect of employment and labour practices, supply chain management, customer relationship and community investment, we greatly promote harmony and prosperity between the Group and every stakeholders including investors, staff, users, customers, suppliers, community, the public and the government to achieve overall social benefits including the maximisation of corporate revenue. The Group is committed to both love and responsibility and we promoted charitable projects with our owned resources. In 2018, the Group joined force with the "Premature Babies Union", a civil society organization, and peer companies to organize various charitable activities such as "Good Morning Babies Love Actions (早安寶貝愛心行)" to support vulnerable families with premature babies.

In 2018, China Parenting Network was granted an award of Charitable Influence Media for Caring about Chinese Mother-Child's Health by China National Committee For The Wellbeing Of The Youth, Child Development Center (中國關心下一代工作委員會兒童發展研究中心).

FUTURE PROSPECTS

In the future, based on our own information technologies such as data mining, we promote product update and replacement and accelerate cross-disciplinary development in order to seize the new technical bonus. Leveraging on our excellent technology development capability, strong content production power and leading operational innovation capability, we will carry out co-operation projects with our brands in order to continuously strengthen the connection between our brands and our users, provide our brands with best solutions and create more value for the industry together with our brand merchants.

Chairperson
Li Juan

29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is a leading vertical online platform for the Children-Babies-Maternity ("CBM") market in China, aiming at providing users with value-added services like new media, contents, community, smart hardware, e-commerce and cross-border services with such platforms as the CI Web (育兒網), mobile CI Web, mobile APPs and the IPTV APP, creating a one-stop mother-child experience platform. During the year of 2018, the MAU and DAU of CI Web of the Company reached 110.1 million and 4.38 million respectively, representing an increase of 30% and 21%, respectively, over last year. "Pregnancy Reminder" and "Mother Zone" are the two main APPs of the Company. For "Mother Zone", the MAU and DAU reached 7.73 million and 1.58 million, respectively, representing an increase of 6.2% and 8.2%, respectively, as compared to that of last year. For "Pregnancy Reminder", the MAU was 3.27 million, which was 0.3% higher than last year and the DAU was 0.8 million, which was the same as last year.

INDUSTRY REVIEW

According to the "Two-Child Family Market Insight Report in 2019" (《2019二胎家庭營銷洞察報告》) (the "Report") jointly published by CI Web and AdMaster in 2018, we summarized the lifestyle and consumption attitudes of two-child families into three new features.

Generated new opportunities to female-oriented entertainment games business under the trend of a woman being a full-time housewife in a two-child family

According to the research findings in the Report, 87% of mothers of two children needed to take care of their children alone and 52% of mothers became full-time housewives as they needed to take care of their children alone. With the increasing awareness of mother-child parenting, mothers were more likely to be responsible for looking after two children. As a result, full-time mothers may become the new driving force in the maternal and child industry. During the Year, the Company has gradually established a new mother-child ecosystem with an aim to provide diversified family services. For the entertainment aspect, the Group refined its female-oriented games and continued to enrich the content of family leisure games. In view of the number of full-time mothers, there was a great potential for developing female-oriented games in family leisure games market.

Got a better understanding of the concept of scientific parenting resulting in rigid demand for the comprehensive family early education

Adhering to the concept of scientific parenting, the expenditure on early education became necessary for two-child families. According to the Report data, 65% of families accepted the concept of early childhood education. The new generation of parents relied more on the timely and comprehensive platform for parenting knowledge. The effectiveness of early education for the first child directly affected the second child. CI Web continuously focuses on the early education sector through the provision of shared early education services, online education programs and chain early education institutions, enabling the exploration of new ways of smart family education through the cooperation with both online and offline premium partners.

Helped users to make decisions with in-depth and quality content as consumers tended to be rational in purchasing maternal and child products

Along with the increase in parenting expenses, two-child families became extremely rational when deciding about the purchase of maternal and child products and had strict requirements for maternal and child products/brands. As shown in the report, the process of deciding the purchase of milk powder was rational. Also, reliable and professional recommendations were the key factors to consider when choosing a product. Based on the mother-child platform with in-depth and professional information related to mother and child, the Group continued to provide vertical, quality and commercialized firsthand information for mother-child groups and help consumers in making rational decisions and reasonable consumptions.

The Group continued to hold the 4th CI Web's "Mummy, You Should Buy This": Mother's Selection. The selection covered all categories of maternal and child products and conducted a brand assessment annually based on votes from millions of mothers and users' feedback. In the 2018 CI Web's "Mummy, You Should Buy This": Mother's Selection, the number of votes cast was 281,035 in total with 272,678 recommendations received. The number of participants and effective recommendations significantly increased as compared to last year, which would help mothers to solve problems in choosing maternal and child products. As the Group values the power of word-of-mouth and interprets the brand value, the influence of this selection activity is gradually increased among the brands. It is expected that the number of votes cast will continue to increase in 2019. Our professionalism and sincerity are trusted by many mothers. According to our statistical analysis, we attracted new users by word-of-mouth and the reuse rate of platform users with two children continued to increase.

BUSINESS REVIEW

Enhanced intellectual mother-child strategy system and established a full platform application scenario

Mother-child family service industry has entered a stage of post-differentiation. As shown in the iResearch Report, in 2018, mother-child family service industry in China has entered the development period, which led to a higher demand for segmentation services from mother-child family users, a vertical and specialized development in the industry and a differentiated service model. Based on the big data collected over ten years and the accumulated research and development knowledge of internet technology as well as the advantage of pageviews of our core products (such as Mother Zone APP, Pregnancy Reminder APP and CI Web PC), the Group fully utilized its forward-looking advantages and shared its resources of all platforms such as CI Web PC, WAP, Mobile APP and IPTV AP to achieve stable operation by using core measures such as quality content, technology and big data. During the Year, CI Web has been officially upgraded to a comprehensive platform with an aim to provide diversified mother-child family services and establish a new mother-child ecosystem, so as to expand its business to various aspects such as healthcare, education and entertainment and gradually develop a whole industry chain in the pan-maternal and child industry for providing comprehensive services to business (B端) brand organization and customers (C端).

Quantified users' nature and accurately identified their position with big data

The Group attracted the attention of our users by intelligent operations such as collecting users' data, using big data and AI. As mother-child users are inherent with drawbacks characterized by short cycle and quick replacement, the Company used smart technology to analyze users' nature in order to satisfy their extensive long-tail demands and significantly prolong their cycles. During the Year, the Company has released the "BABY FACE Precision Big Data Marketing Platform" to assist the management of the mother-child data assets in the whole platform industry chain based on its big data of mother-child family users in the whole platform. The BABY FACE platform is used to analyze users' nature and identify users' behaviour and attitudes for improving data label. Combining its content and operation, the Group refined its own products and enhanced user's experience by managing its intelligent data, intelligent mother-child population and intelligent strategies.

MANAGEMENT DISCUSSION AND ANALYSIS

Used in-depth and quality contents as its core competency

With the expansion of information access, there are various ways for parenting groups to obtain maternal and child information from different sources. The Group achieved all-net content distribution via multiple channels and scenarios to extend our business to four areas, namely offline scenarios, new media matrices, micro-ecology and e-commerce MCN, which covered new media platforms including social, consulting and e-commerce, and to achieve all-net content distribution and penetrate the mother-child industry and mother-child family life in all aspects. During the Year, the Group entered into strategic partnerships with integrated online stores such as baby channel on JD.com (京東母嬰), Taobao and Suning to commence sustainable strategic cooperation in daily content export, IP co-construction and talent development.

OUTLOOK

Upgrade and consolidate its technology development and application to rebuild the technology structure of maternal and child industry

Based on its own information technologies such as data mining, the Company promotes product update and replacement and accelerates cross-disciplinary development in order to seize the new technology and artificial intelligence bonus. Facing the customers (C端), CI Web is currently providing contents of more than 30 subdivided time segments from pregnancy to baby's birth. After receiving all information from users, the Company analyzes users' profile through big data to gain a deep understanding of users. The Company also precisely reaches users by using customized and target oriented calculation methods in order to give intelligent recommendations based on the interworking of contents and pageviews and achieve wider coverage of users, creating differentiated user experiences in terms of social, content and services.

Adopt precision data marketing to effectively achieve external empowerment to brand customers

We use big data and technologies as our trump card for external empowerment and upgrade our brand customers membership system by improving their user interface, interactive experience design and website features etc. to achieve accurate and efficient communication between our brand customers and their users. Leveraging on our excellent technology development capability, strong content production power and leading operational innovation capability, we will carry out co-operation projects with our brand customers in order to continuously strengthen the connection between our brand customers and their users, provide our brand customers with best solutions and create more value for the industry together with our brand customers in the future.

Transfer of Listing

The Shares were listed on GEM on 8 July 2015 and the listing of which has been successfully transferred from GEM to the Main Board (the "Transfer of Listing") on 8 October 2018. Transfer of Listing will enhance the corporate profile and public recognition of the Company. This will, in turn, enhance the business prospects of the Group and add to its competitive strength in attracting, retaining and augmenting the Group's qualified staff and client base and is beneficial to the future growth and development of the Group.

Comparision of the business target and the actual business progress

The following table shows the comparison between the actual business progress during the twelve months ended 31 December 2018 and the plans set out in the prospectus dated 30 June 2015:

Business Target	Particulars	Actual business progress during the period from 1 January 2018 to 31 December 2018
Strengthening research and development capabilities of contents and service products	Increase original contents on platforms and improve user interface; Develop new web-based and mobile apps of CBM products in order to maintain market share; Develop interactive family entertainment system product, early learning and early education centers management system.	• The Group continued to strengthen its capability of producing original content and increasing content volume and quality output. Particularly, its original cartoon series "All about parenting" ("育兒你造嗎") has been listed in the "2017–2018 Top 10 Temperament Audio-Visual Programs for Scientific and Early Education" (2017–2018十大最具科學早教氣質視聽節目榜單) held by 2018 Science and Early Education Conference (2018科學早教大會). At the same time, "Mummy, You Should Buy This" has launched an original high-quality evaluation program named"Mummy Lab (《橙品實驗室》)", which conducted 37 professional and fun video evaluations during the year with an aim to help mother-child groups to quickly identify trendy and good quality maternal and child products. During the period, the Group has adopted full platform strategy and cooperated with well-known internet companies in China such as JD.com to produce a new live streaming video program named "Shopping Dad(《剁手爸》)", which combined contents and products. The Group continued to produce original contents with innovative presentation. • "Mother Zone", our Group's hot product, has upgraded to the new version, which provided personalized recommendations and presented customized contents for each user by analyzing users through big data. The new version offered users with targeted content based upon their respective status and recommendations that match their interests according to their reading and searching habits. "Mother Zone" also promoted accurate advertising with an aim to establish a customized system for users.

Business Target	Particulars	Actual business progress during the period from 1 January 2018 to 31 December 2018
		• "Pregnancy Reminder" has been focusing on user needs. It has recently launched customized expert Q&A services with over a 100 renowned doctors and authoritative experts participated and has set up Mother Classroom and Expert Q&A sessions with its contents cover multiple platforms in order to provide authoritative and professional pregnancy knowledge and Q&A services for mothers. The new version of "Pregnancy Reminder" has launched with a section named "Parenting Section (育兒版)", adding a new function named "plus member(plus會員)", which enhanced the professionalism and active level of paying for knowledge section as more medical experts participated. The Group has also put great efforts into developing mini program matrix and successively launched the mini programs such as "Pregnancy Reminder", "Mother's choice (媽媽醫選)" and "Babytime 時光機 (Babytime Time Machine)". These are the first batch of mini programs released on WeChat, which offered information and photo storage services for mother-child groups, hence generating billions of pageviews by building the mini program's ecosystem. The Group innovated its advertising and marketing services to provide more scenic experience, identify targets in different ways and enhance its advertising effect.

Business Target	Particulars	Actual business progress during the period from 1 January 2018 to 31 December 2018
Enhancing user loyalty and Internet traffic	Increase number of visits of our CI Web through securing entrance slots in search engines and navigation sites; Increase the number of downloads and mobile APPs usage through obtaining entrances slots in online APP stores; Marketing of interactive family entertainment system product and early education.	• The Group has various platforms to maintain a certain number of users, and occupied a leading position in the industry. As at 31 December 2018, the MAU and DAU of CI Web of the Company reached 110.1 million and 4.38 million respectively, representing an increase of 30% and 21%, respectively, over last year. "Pregnancy Reminder" and "Mother Zone" are the two main APPs of the Company. For "Mother Zone", the MAU and DAU reached 7.73 million and 1.58 million, respectively, representing an increase of 6.2% and 8.2%, respectively, as compared to that of last year. For "Pregnancy Reminder", the MAU was 3.27 million, which was 0.3% higher than last year and the DAU was 0.8 million, which was the same as last year. • The plan of marketing of interactive family entertainment system product and early education is under continuous development.
Developing e-commerce business and related O2O business	Expand e-commerce platform; Increase the O2O elements in mobile APPs; Develop and marketing fetal heart monitoring device (胎心儀) and other smart-hardware devices that can connect with Mobile APP.	• The Group sold CBM related services and products through self-developed mobile APP as well as the third party platform and continuously developed e-commerce business through multiple channels. • During the period, the Group continued its industry chain planning and developed new offline retail markets by providing business intelligence solutions regarding new retail model to maternal and child stores, fully assisting small and medium-sized maternal and child stores to adapt to a new retail model. The Group also transferred its resources from online platform to an offline platform so as to satisfy higher demand for family services.

Business Target	Particulars	Actual business progress during the period from 1 January 2018 to 31 December 2018
Acquisition of or investment in other companies engaging in O2O and CBM related businesses	Expand business through acquisition of or investment in other companies engaging in CBM related business.	• For details of the Group's investment in certain entities and loans, please see the paragraphs of "Change in fair value of financial assets at fair value through other comprehensive income"and "Loan to other entities" under the section of Management Discussion and Analysis. The Group believes that this will help to expand the existing business boundaries of the Group and enhance its ability of resource integration, and is in line with the long-term goals of diversified development of the Group.
Enhancing marketing and promotional services	Organize more social activities and expand marketing and promotion team.	• The Group continued to cooperate with different parties in the mother-child industry. In 2018, as a strategic partner of "2018 Mother-child Health Mile Walk" (2018母嬰健康萬里行), the Group participated in and held events in Shanghai, Beijing, Suzhou and Nanjing. To strengthen the communication and build trust with users, the "Mother Zone" continuously carried out annual anniversary celebration events. In 2018, the "Mother Zone" celebrated its 6th anniversary by showing the growth process of each of its users in the community, so as to increase their sense of belonging continuously. • The Group took part in 18th "CBME China". • The Group increased its cooperation with complex media, stars and celebrities and web celebrities to increase its exposure and influence.
Working capital and other general corporate purposes	Utilise the working capital according to our needs and for other general corporate purpose.	• The Group has spent its working capital in its daily operations and other general corporate purposes.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2018 was approximately RMB109.7 million, representing an increase of approximately 20.4% over approximately RMB91.1 million for the year ended 31 December 2017, primarily due to the rapid development in CBM industry which created a large demand for online advertising of CBM products and the enhanced traffic and reputation of users encouraged customers to put more budgets in brand displaying on the platform.

Cost of sales

The Group's cost of sales for the year ended 31 December 2018 was approximately RMB31.7 million, representing an increase of approximately 156.0% over approximately RMB12.4 million for the year ended 31 December 2017, primarily due to the increase of bandwidth traffic cost caused by the increasing website popularity.

Gross profit and gross profit margin

The Group's gross profit for the year ended 31 December 2018 was approximately RMB78.0 million, representing a decrease of approximately 0.9% over approximately RMB78.8 million for the year ended 31 December 2017. During the Year, the Group's gross profit margin decreased slightly from approximately 86.4% to approximately 71.1% primarily due to higher bandwidth traffic cost.

Other income and gains

The Group's other income and gains for the year ended 31 December 2018 was approximately RMB8.3 million, representing an increase of approximately 5.3% compared to approximately RMB7.8 million for the year ended 31 December 2017, primarily due to the increase of government grants provided by the local government as development support funds.

Selling and distribution expenses

The Group's selling and distribution expenses for the year ended 31 December 2018 was approximately RMB22.5 million, representing an increase of approximately 101.3% over approximately RMB11.2 million for the year ended 31 December 2017, primarily attributable to the increase in marketing and promotion fee and average salary paid to the employees.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2018 was approximately RMB16.5 million, representing an increase of approximately 12.3% over approximately RMB14.6 million for the year ended 31 December 2017, primarily attributable to the increase of professional service fee and increasing average salary paid to the employees in the administrative department.

Research and development costs

The Group's research and development ("R&D") cost for the year ended 31 December 2018 was approximately RMB11.8 million, representing a decrease of approximately 30.4% over approximately RMB16.9 million for the year ended 31 December 2017, primarily attributable to the decrease in the number of R&D personnel.

Income tax expense

The Group's income tax expense for the year ended 31 December 2018 was approximately RMB3.8 million, representing a decrease of approximately 6.1% over approximately RMB4.1 million for the year ended 31 December 2017, primarily attributable to the increase in the Company's cost and the decrease in total profit.

Profit for the Year

As a result of the factors described above, the Group's net profit for the year ended 31 December 2018 was approximately RMB31.6 million, representing a decrease of approximately 16.6% over approximately RMB37.9 million for the year ended 31 December 2017.

Earnings per Share

Earnings per Share reduced by 12.8% from RMB0.0337 in 2017 to RMB0.0294 in 2018.

Gearing ratio

As of 31 December 2018, the gearing ratio of the Group, calculated as total liabilities, divided by total assets, was 7.7% (31 December 2017: 4.7%).

Capital expenditure

Our capital expenditure was RMB0.5 million for the year ended 31 December 2018 (31 December 2017: RMB0.1 million). The Group's capital expenditures were mainly related to the purchases of servers, computers and office equipment.

Liquidity and capital resources

As at 31 December 2018, the net current assets of the Group was approximately RMB134.8 million (31 December 2017: approximately RMB260.5 million) and the cash and cash equivalents were approximately RMB86.3 million (31 December 2017: approximately RMB198.2 million).

As of 31 December 2018, the bank borrowing of the Group was approximately RMB11 million. The Group's bank borrowings as at 31 December 2018 were denominated in RMB and unsecured (31 December 2017: there was no bank borrowing of the Group). The table below sets forth selected cash flow data from the Group's consolidated statement of cash flows:

	2018 **RMB'000**	2017 RMB'000
Net cash flows generated from operating activities	**9,106**	35,810
Net cash flows used in investing activities	**(134,745)**	(54,611)
Net cash flows generated from/(used in) financing activities	**9,595**	(2,068)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(116,044)**	(20,869)
Cash and cash equivalents at beginning of the Year	**198,152**	230,447
Effect of foreign exchange rate changes, net	**4,143**	(11,426)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**86,251**	198,152

Operating activities

Net cash flows generated from operating activities decreased from approximately RMB35.8 million in 2017 to RMB9.1 million in 2018, which was primarily attributable to the slowdown in cash collection due to the income increase of major customers with long credit periods.

Investing activities

Net cash flows used in investing activities increased from approximately RMB54.6 million in 2017 to RMB134.7 million in 2018, which was primarily attributable to the increase in external investment in 2018. For details please refer to financial assets at fair value through other comprehensive income.

Financing activities

Net cash flows generated from financing activities was approximately RMB9.6 million in 2018 and net cash flows used in financing activities was approximately RMB2.1 million in 2017, which was primarily due to the net addition of bank loan with the amount of RMB11 million in 2018 (2017: loan repaid RMB2.0 million).

Foreign exchange exposure

The Group's transactions are mainly denominated in RMB. Part of the cash and bank deposits of the Group are denominated in Hong Kong dollars. During the Year, the Group did not experience any material impact or liquidity problems in its operation resulting from the changes in exchange rate nor enter into hedging transaction or forward contract arrangement. However, the management closely monitors foreign exchange exposure to ensure appropriate measures are implemented in a timely and effective manner. In this regard, the Group is exposed to any significant foreign currency exchange risk in its operation.

Capital structure

The Shares were listed on the GEM of the Stock Exchange since 8 July 2015 and the listing of shares of the Company has been transferred since 8 October 2018. The capital structure of the Company comprised ordinary shares.

Capital commitment

As at 31 December 2018, the Group had no capital commitment (31 December 2017: Nil).

Employees, training and remuneration policy

The remuneration committee of the Company will review and determine the remuneration and compensation packages of Directors with reference to their responsibilities, workload, and the time devoted to the Group and the performance of the Group. In general, the Group determines employees' salaries based on their performance and length of services. The Board believes the salaries and benefits provided to the employees are competitive with local market standards. The Group also contributes to the social insurance in the PRC.

The Group has implemented training for new employees during their course of employment in order to ensure that employees are able to meet the job requirements. In addition, the Group will occasionally arrange internal and external trainings for the Group's employees. For external trainings, external speakers who have extensive experience in information technology may be invited to attend the Group's office to perform the training, and for internal trainings, the topics may include finance, accounting, risk management or information technology and such trainings will be conducted by the relevant department. The Group considers these on job trainings are necessary for the employees to handle issues which may arise in their day to day operations and can enhance their ethic and morale.

As at 31 December 2018, the Group had a total of 181 employees including executive Directors (31 December 2017: 183 employees). Total staff costs were approximately RMB27.6 million for the Year (31 December 2017: approximately RMB29.3 million).

Material acquisitions and disposals of subsidiaries

During the Year, there was no material acquisition or disposal of subsidiaries by the Group.

Charges of assets

As at 31 December 2018, the Group did not make any pledged bank deposit (31 December 2017: Nil).

Contingent liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (year ended 31 December 2017: a final dividend of HK$0.0015 per share and HK$1,538,493 in total).

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December 2017, the Group made investment of RMB15.0 million on the equity of Nanjing Hongdou Information Technology Company Limited* (南京紅豆信息技術有限公司) ("Hongdou Information"), a private company. As at 30 June 2018, the Group accounted for 12.3% of Hongdou Information's registered capital. H5 games "Her Majesty" (女皇陛下) and "National Palace" (全民宮斗) developed by Hongdou Information successfully launched on Tencent QQ Games and Qzone Gaming Platform.

As at 7 November 2017, the Group made investment of RMB10.0 million on the equity of Shanghai Baiyi Animation Cultural Broadcasting Company Limited* (上海百逸動漫文化傳播有限公司) ("Baiyi"). The change in industrial and administration registration was completed in April 2018. As at 30 June 2018, the Group accounted for 10.0% of Baiyi's registered capital. Baiyi has its own professional animation team and can develop, produce, and distribute 2D/3D cartoon and peripheral toy products. Sales channels have expanded to all first and second-tier cities in PRC with more than 100 distributors, covering thousands of primary schools and terminal sales outlet.

In 2018, the Group has entered into the following investment agreements. The change of shareholder registration of the target companies has been approved, and the respective consideration, shareholding and business scopes of those companies are set out below:

In June 2018, the Group acquired 10% equity interest of Nanjing Depth Element Artificial Intelligence Technology Development Company Limited* (南京深度元素人工智能技術研發有限公司) ("Depth Element") from a third party at the consideration of RMB5.0 million. The principal activities of Depth Element are the provision of artificial intelligence-based technology: item identification, human body identification, path recognition, behavior recognition; and the provision of analysis services based on the above identification technologies: crowd analysis, business analysis, personalized recommendation and marketing, intelligent shopping guide.

In June 2018, the Group acquired 10% equity interest of Nanjing Shenkong Vision Artificial Intelligence Technology Development Company Limited* (南京深空視線人工智能技術研發有限公司) ("Shenkong Vision") from a third party at the consideration of RMB5.0 million. The principal activities of Shenkong Vision are the provision of auto-cruise, path planning and other functions for robots with the use of self-developed vSLAM system combined with artificial intelligence technology; and human tracking and educational interaction with natural language understanding with the use of monocular camera.

In June 2018 and December 2018, the Group invested in Nanjing Duozan Health Technology Company Limited* (南京多贊健康科技有限公司) ("Duozan Health") at the consideration of RMB5.0 million and RMB8.0 million, respectively. On 31 December 2018, the Group accounted for 17.20% of Duozan Health's registered capital. Duozan Health is committed to establish the best healthy pregnancy management and knowledge service platform in China. It provides the best paid knowledge and online medical services to Chinese families, enabling the provision of paid knowledge and medical services to more families by the national obstetricians and pediatricians with the removal of institutional constraints.

In June 2018, the Group acquired 10% equity interest of Nanjing Zhiren Cloud Information Technology Company Limited* (南京智人雲信息技術有限公司) ("Zhiren Cloud") from a third party at the consideration of RMB5.0 million. The principal activities of Zhiren Cloud are the provision of container cloud management platform, artificial intelligence cloud platform, public cloud and private cloud services based on microservices.

In June 2018 and December 2018, the Group invested in Nanjing Shen Jufeng Engine Information Technology Company Limited* (南京颶風引擎信息技術有限公司) ("Jufeng Engine") from a third party at the consideration of RMB5.0 million and RMB8.0 million, respectively. On 31 December 2018, the Group accounted for 18.10% of Jufeng Engine's registered capital. The principal activities of Jufeng Engine are the operation of emerging distributed applications with the support of new blockchain, and the provision of high-performance computing with low cost and high yield by establishing a distributed cloud infrastructure.

In June 2018, the Group acquired 10% equity interest of Nanjing Free Chain Information Technology Company Limited* (南京自由鏈信息技術有限公司) ("Free Chain") from a third party at the consideration of RMB5.0 million. The principal activities of Free Chain are the establishment of interconnections between internet devices in different regions with its unique solutions, construction of decentralized transmission network to achieve independent collaboration and the expansion of business scale. Such kind of internet is not subject to the limitation of computing power and storage, thus empowers the internet with strong expansion capabilities to achieve true decentralization, openness, self-motivation, privacy and security.

In May 2018 and December 2018, the Group invested in Nanjing Duomai Information Technology Company Limited* (南京多麥信息科技有限公司) ("Duomai Information") at the consideration of RMB8.0 million and RMB8.0 million, respectively. On 31 December 2018, the Group accounted for 18.16% of Duomai Information's registered capital. Duomai Information is a service company for mother-child businesses. It provides assistance for privatized customer assets during the Internet era, expanding the Internet customer base and improving operational efficiency through its products and services. In particular, through the provision of integrated solutions such as micromalls, new retailing and mini programs, it provides assistance for the transformation and upgrade towards smart business for small and medium-sized mother-child enterprises, thus helping those enterprises achieve smart business with technology-driven business innovation. Duomai Information is able to expand CI Web's online and offline retailing channels for large business (大B) customers effectively, therefore playing an important role in securing the CI Web's existing business customer base.

In May 2018, the Group acquired 15% equity interest of Nanjing Luobo Information Technology Company Limited* (南京蘿播信息技術有限公司) ("Luobo Information") from a third party at the consideration of RMB12.0 million. The principal activities of Luobo Information are the provision of educational, marketing and social services to its customers across the network for baby-children businesses through the distribution of audio and video contents and the management capabilities of the communities, effectively expanding and making up for the service capabilities of major customers of CI Web under the pan-network conditions.

In May 2018 and December 2018, the Group invested in Nanjing Baicheng Medical Technology Company Limited* (南京柏橙醫療科技有限公司) ("Baicheng Medical") at the consideration of RMB8.0 million and RMB8.0 million, respectively. On 31 December 2018, the Group accounted for 17.20% of Baicheng Medical's registered capital. The principal activities of Baicheng Medical are the provision of one-stop integrated information system construction for hospitals, and the construction of end-to-end medical service platform covering pre-diagnosis, in-diagnosis and post-diagnosis stages. Having leading system capabilities and product advantages in cloud-based family medical and smart medical areas, Baicheng Medical is able to assist CI Web to better connect and serve the mother-child families through the internet.

In May 2018, the Group acquired 10% equity interest of Nanjing Suichuang Xiupu Information Technology Company Limited* (南京速創秀普信息科技有限公司) ("Suichuang Xiupu") from a third party at the consideration of RMB10.0 million. The principal activities of Suichuang Xiupu are the provision of micro-service cloud application platform, which is a one-stop PaaS platform service designed for mother-child enterprises, providing application cloud hosting solutions to assist enterprises simplify application lifecycle management such as deployment, control, operation and maintenance; and the provision of micro-service framework, compatible mainstream open source ecosystem, specific development framework and platform without binding. Suichuang Xiupu is able to assist the small and medium-sized mother-child enterprises that are connected to CI Web to quickly establish distributed applications based on micro-service structure.

In May 2018 and December 2018, the Group invested in Nanjing Yunqulu Network Technology Company Limited* (南京雲曲率網絡科技有限公司) ("Yunqulu") at the consideration of RMB5.0 million and RMB5.0 million, respectively. On 31 December 2018, the Group accounted for 17.20% of Yunqulu's registered capital. Yunqulu is a leading mother-child business incubator company with branches in Australia and the United States. Its core role is to provide effective incubator services for startup mother-child enterprises on the CI Web. Similar to the innovative factory in the mother-child industry, Yunqulu provides angel funding, technical support and staff training for the startup mother-child enterprises.

In May 2018, the Group acquired 10% equity interest of Nanjing Xinmenghui Education Technology Company Limited* (南京芯萌匯教育科技有限公司) ("Xinmenghui") from a third party at the consideration of RMB5.0 million. Xinmenghui is a leading service provider for online baby and children education. It provides interactive learning systems and contents to families with babies and children through a combination of unique contents, technology and system, effectively extending the online educational service capabilities of CI Web to those families.

In May 2018, the Group acquired 19.5% equity interest of Beijing Changsheng Clinic Company Limited* (北京昌盛門診部有限公司) ("Changsheng") from a third party at the consideration of RMB5.0 million. The principal activity of Changsheng is the provision of family and general medical services with an aim to serving patients in the city center.

In May 2018, the Group acquired 19.5% equity interest of Beijing Chengjiyuan Clinic* (北京誠濟源診所) ("Chengjiyuan") from a third party at the consideration of RMB5.0 million. The principal activity of Chengjiyuan is the provision of family and general medical services with an aim to serving patients in the new suburban residential areas.

In July 2018, the Group acquired 18.0% equity interest of CCLOUD TECH LIMITED from a third party at the consideration of HK$50.0 million. The principal activities of CCLOUD TECH LIMITED are the technology development and operation combining block chain technology with the entity economy and the provision of cross-border consumer service platform, cross-border global education platform, cross-border new retail business platform, block chain information service and technology trading platform, high-speed and cross-chain trading system based on intelligence contracts, system testing for block chain security system and block chain service platform.

In December 2018, the Group acquired 0.82% equity interest of Shanghai Shijiu Information Technology Co., Ltd.* (上海視九信息科技有限公司) ("Shanghai Shijiu") from a third party at the consideration of RMB0.65 million and entrusted Shanghai Tuanshang Enterprise Management Partnership (Limited Partnership)* (上海團尚企業管理合夥企業(有限合夥)), a third party, to hold the equity interest of Shanghai Shijiu on behalf of the Group. The principal activities of Shanghai Shijiu are the provision of system integration, application development and operation services for devices such as smart TV set-top boxes based on its leading browser technologies such as HTML5.

In December 2018, the Group has entered into an agreement to invest in the following 13 companies and the consideration was paid in December 2018. The change of shareholder registration is subject to approval and the respective consideration, shareholding and business scopes of those companies are set out below:

The Group acquired 18.0% equity interest of DEEPFOLIO PTY LTD from a third party at the consideration of RMB0.5 million. The principal activity of DEEPFOLIO PTY LTD is the provision of a professional investment solution for artificial intelligence empowerment. Investors can use the most advanced artificial intelligence technologies to develop quantitative investment strategies and manage their own investment.

The Group acquired 18.0% equity interest of DYNAMIC PIXEL WORKS PTY LTD from a third party at the consideration of RMB0.5 million. The principal activity of DYNAMIC PIXEL WORKS PTY LTD is to provide assistance in the animation production process with artificial intelligence technologies in order to make the process easier and faster and significantly reduce the cost of animation production.

The Group acquired 18.0% equity interest of DAILY ROBOTICS PTY LTD from a third party at the consideration of RMB0.5 million. The principal activities of DAILY ROBOTICS PTY LTD are the use of artificial intelligence technology to identify scenarios and objects with accuracy rate as high as 98% and achieves continuous improvement of accuracy by using machine learning technology under manual intervention, and the provision of API and output technical services for various businesses and industries.

The Group invested in Guangzhou Muyun Electronic Commerce Co., Ltd.* (廣州沐雲電子商務有限公司) ("Muyun Electronic") at the consideration of RMB4.0 million. On 31 December 2018, the Group accounted for 16.0% of Muyun Electronic's registered capital. The principal activity of Muyun Electronic is the provision of services relating to quickly set up a foreign trade independent website of global sales for vendors and offer technical support for corporate and individual online shop and operators and integrated solutions from website building to management and operation. The business is also divided into B2C cross-border e-commerce independent station and B2B export trade independent station.

The Group invested in Guangzhou Baxianguohai Information Technology Co., Ltd.* (廣州八仙過海信息科技有限公司) ("Baxianguohai") at the consideration of RMB5.0 million. On 31 December 2018, the Group accounted for 18.0% of Baxianguohai's registered capital. The principal activity of Baxianguohai is the establishment of an omnichannel marketing and ordering platform for enterprises. This platform helps enterprises to develop collaboration between upstream and downstream business and make real-time data decision in six aspects of order management, inventory management, fund settlement, customer operations, business reporting and procurement management.

The Group invested in Hangzhou Xianju Information Technology Co., Ltd.* (杭州先巨信息技術有限公司) ("Xianju Information") at the consideration of RMB10.0 million. On 31 December 2018, the Group accounted for 15.0% of Xianju Information's registered capital. The principal activity of Xianju Information is the provision of hospital management system platform in four aspects: hospital information and management open platform, mobile clinic, intelligent monitoring module and chronic disease management module. This platform provides all-round medical care from patient admission to discharge; from hospital diagnosis to home monitoring; from computer to mobile terminal; and from infant health monitoring to smart retirement.

The Group invested in Suzhou Youchao Information Technology Co., Ltd.* (蘇州優潮信息技術有限公司) ("Youchao Information") at the consideration of RMB7.0 million. On 31 December 2018, the Group accounted for 19.0% of Youchao Information's registered capital. The principal activity of Youchao Information is the provision of enterprise online education platform which focuses on the training of product managers. The business is divided into three aspects: enterprise orientation training, internal enterprise staff training and vocational skill training. A number of well-known internet enterprise product directors acted as lecturers. Using platform technology, users can take online open classes and participate one-on-one tutoring after school so as to achieve offline practical training, internet project practice and innovative teaching processes with internships in famous enterprises.

The Group invested in Zhengzhou Lishi Information Technology Co., Ltd.* (鄭州立時信息技術有限公司) ("Lishi Information") at the consideration of RMB6.0 million. On 31 December 2018, the Group accounted for 17.0% of Lishi Information's registered capital. The principal activity of Lishi Information is the provision of integrated platform system for digital currency exchanges based on block chain technology. This system provides services of issuance, management and trading of digital currencies. On the basis of fully supporting the Bitcoin trading system, this system further improves its digital currency trading mechanism with block chain query and management functions and continuously optimizes its core functions and increases the comprehensive functional advantages of the product by enhancing of security protection level, leveraged financial transaction system and platform promotion and operation mechanism.

The Group invested in Nanjing Qianguang Information Technology Co., Ltd.* (南京千光信息技術有限公司) ("Qianguang Information") at the consideration of RMB5.0 million. On 31 December 2018, the Group accounted for 10.0% of Qianguang Information's registered capital. The principal activity of Qianguang Information is the provision of user-centered system for enterprise intelligence marketing. Based on seven business modules of social business strategy, social experience management, social branding and traffic management, social sales promotion, loyalty operations management, social product innovation and social advertising services, a one-stop platform for enterprise mobile marketing is established to create a rich, open and intelligent mobile marketing ecosystem.

The Group invested in Nanjing Yuanhui Information Technology Co., Ltd.* (南京遠匯信息技術有限公司) ("Yuanhui Information") at the consideration of RMB5.0 million. On 31 December 2018, the Group accounted for 10.0% of Yuanhui Information's registered capital. The principal activity of Yuanhui Information is the provision of software development tool system based on artificial intelligence technology. For those who are not capable of programming, this system can help them to develop internet products easily through PC client, development tool website and mobile APP mode.

The Group invested in Nanjing Youke Workshop Information Technology Co., Ltd.* (南京優客工坊信息技術有限公司) ("Youke Workshop") at the consideration of RMB5.0 million. On 31 December 2018, the Group accounted for 10.0% of Youke Workshop's registered capital. The principal activity of Youke Workshop is the provision of knowledge sharing platform. This platform provides computer-related professional and technical knowledge for corporate employees and individual members and provides users with mutual learning modules, so that everyone can be a teacher. Members who obtained platform instructor certification can also organize courses to earn commissions.

The Group invested in Nanjing Mengmiao Education Technology Co., Ltd.* (南京萌苗教育科技有限公司) ("Mengmiao Education") at the consideration of RMB8.0 million. On 31 December 2018, the Group accounted for 18.0% of Mengmiao Education's registered capital. The principal activity of Mengmiao Education is the provision of IM system with complete solution customized for internet education industry. Products are in line with the education industry, suitable for practical educational scenarios, and truly meet the needs of the teachers. In the form of PAAS+SAAS service, the product itself serves as a platform to provide SDK for third parties. At the same time, it also provides services for different users to develop different functions based on its own platform.

The Group invested in Nanjing Suyun Xiupu Information Technology Co., Ltd.* (南京速雲秀普信息科技有限公司) ("Suyun Xiupu") at the consideration of RMB3.0 million. On 31 December 2018, the Group accounted for 10.0% of Suyun Xiupu's registered capital. The principal activity of Suyun Xiupu is the development of a CRM system for training institutions. This system also applies its self-developed face recognition technology to specific CRM scenarios, achieving an innovative combination of "Face Recognition + Education CRM System".

LOANS TO OTHER ENTITIES

The balance represents loans extended to unrelated third parties, bearing interest rates of 6.0% to 8.0% per annum for periods of 18 to 36 months. The aim of entering into these loan facility agreements with these third parties are for the long term interest of the Group. In future, by evaluating the performance of these third parties over a period, the Group has the option to invest in shares of these companies in priority.

In October 2017, Nanjing Xihui Information Technology Company Limited ("Nanjing Xihui"), a wholly-owned subsidiary of the Company, as lender entered into a loan facility agreement with a third party. The third party operates a platform for parentchild consumption. The amount of the loan facility agreement is up to RMB12.0 million, bearing interest at a rate of 6.0% per annum for a period of 36 months. The loan was guaranteed by a subsidiary of an A share listed company.

In October 2017, Xibai (Nanjing) Information Technology Company Limited, a wholly-owned subsidiary of the Company, as lender entered into a loan facility agreement with a third party. The main business for the third party is providing equipment support to medical institution and developing online platform for health consultation. The amount of the loan facility agreement is up to RMB5.0 million, bearing interest at a rate of 8.0% per annum for a period of 18 months. As at 31 December 2018, the loan made to the Borrower under the facility agreement amounted to RMB4.0 million.

In November 2017, Xibai (Nanjing) Information Technology Company Limited, a wholly-owned subsidiary of the Company, as lender entered into a loan facility agreement with a third party. The third party provides video stream media technology and service to other security organizations. The amount of the loan facility agreement is up to RMB2.0 million, bearing interest at a rate of 6.0% per annum for a period of 36 months. As at 31 December 2018, the loan made to the Borrower under the facility agreement amounted to RMB1.0 million.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILE

DIRECTORS

Executive Directors

Mr. Cheng Li (程力), aged 36, is an executive Director and our chief executive officer. Mr. Cheng was appointed as a Director on 11 February 2015. He is also a director of Nanjing Xihui, Nanjing Xinchuang and Nanjing Fuyuan, and a member of the remuneration committee. Mr. Cheng is responsible for management of the day-to-day operations of our Group. Mr. Cheng joined our Group as a graduate program engineer of Nanjing Xinchuang in April 2005. Mr. Cheng has more than 15 years of working experience in the information technology industry. During his employment with our Group in the past years, Mr. Cheng was initially responsible for website development and maintenance and has been gradually promoted to the management level of our Group responsible for overseeing the general operation and management of our Group. Mr. Cheng obtained a bachelor degree in management majoring in e-commerce in June 2006 from Southeast University (東南大學) in the PRC. He obtained his Master of Business Administration degree from China Europe International Business School in November 2017.

Mr. Hu Qingyang (胡慶楊), aged 42, is an executive Director. Mr. Hu was appointed as a Director on 11 February 2015. Mr. Hu is responsible for management of the day-to-day operations of our Group. Mr. Hu has more than 15 years of working experience in relation to education services (including on-line education and education project management). From April 2004 to January 2008, Mr. Hu worked as the vice general manager of Jiangsu Wenxue Education Development Company Limited (江蘇問學教育發展有限公司) responsible for overseeing the planning and execution of education projects. Mr. Hu joined our Group in April 2008 as the vice president of Nanjing Xinchuang mainly responsible for developing our CBM educational information and products. Mr. Hu completed a long-distance learning course in economic administration (大專班經濟管理專業) issued by the Correspondence Institute of the Party School of the Central Committee of C.P.C (中共中央黨校函授學院) in the PRC in June 2007. Mr. Hu was awarded the title of excellent association staff (優秀學會工作者) by Nanjing Association of Social Science (南京市社會科學界聯合會) in December 2004.

Mr. Zhang Lake Mozi, aged 33, is an executive Director and our chief financial officer. Mr. Zhang was appointed as a Director on 11 February 2015. Mr. Zhang is responsible for management of finance and investors' relationship of our Group. Mr. Zhang is a director of Kingdom Music Education Group Limited. Mr. Zhang is currently a director of CHINA MA Investment Limited (香港中馬投資有限公司) which he co-founded in August 2012. From February 2011 to August 2012, Mr. Zhang worked as a marketing director in Beijing Xuyihe Culture Media Co., Ltd. (北京旭羿和文化傳媒有限公司). Mr. Zhang obtained a bachelor degree of arts majoring in economics and minoring in mathematics from the University of Alberta in Canada in June 2009.

Non-executive Directors

Ms. Li Juan (李娟), aged 40, is a non-executive Director, our chairperson and the founder of our Group. Ms. Li is the spouse of Mr. Wu Haiming, a non-executive Director. She is also a director of Shining World Investments Limited, Star Universal Holdings Limited and Xibai (Nanjing) Information Technology Company Limited (矽柏(南京)信息技術有限公司), and the chairperson of the nomination committee and a member of the audit committee. Ms. Li is responsible for supervising the overall management and strategic planning of our Group. Ms. Li was appointed as a Director on 13 October 2014. Ms. Li currently works as a project manager with China Hewlett-Packard Co., Ltd. (中國惠普有限公司), which she has joined since October 2006. Ms. Li obtained a bachelor degree of science majoring in computer science and technology from China University of Geoscience (中國地質大學) in June 2000.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILE

Mr. Wu Haiming (吳海明), aged 51, is a non-executive Director. Mr. Wu was appointed as a Director on 11 February 2015. Mr. Wu is the spouse of Ms. Li Juan, our chairperson and a non-executive Director. Mr. Wu is responsible for formulating and directing the overall operations and development strategy of our Group. Mr. Wu has been participating in the management of our Group since our first operating subsidiary, Nanjing Xinchuang, was established in April 2005. Mr. Wu had worked as an engineer and program manager of Lightwaves 2020, Inc. in Silicon Valley of the United States. Mr. Wu has more than 15 years of working experience in the information technology industry. Mr. Wu obtained a bachelor degree majoring in radio technology in July 1990, and a PhD degree in engineering majoring in physical electronics and optoelectronics in April 1997, both from Southeast University (東南大學) in the PRC respectively. From February 1997 to December 1998, Mr. Wu was a post-doctoral fellow and research student in the University of Yamanashi in Japan and from April 2000 to March 2001, Mr. Wu worked as a researcher in the Research Institute of Innovative Technology for the Earth (RITE) in Kyoto, Japan. Mr. Wu was appointed as the director of the key laboratory for the development and study of science and media technology of children in Suzhou (蘇州市兒童發展與學習科學媒體技術重點實驗室) by the Suzhou Research Institute of Southeast University (東南大學蘇州研究院) in December 2007.

Mr. Hsieh Kun Tse (謝坤澤), aged 54, is a non-executive Director. Mr. Hsieh was appointed as a Director on 11 February 2015. Mr. Hsieh is responsible for supervising the overall management and strategic planning of our Group. Mr. Hsieh is currently the general manager of Shanghai AMVC Investment Management Centre (上海早鳥投資管理中心(有限合伙)), which he co-founded in November 2013. Mr. Hsieh worked as the vice president of Sunchime Cartoon Group Company Limited (三辰卡通集團有限公司) from January 2003 to June 2006. Mr. Hsieh worked as the general manager of content and image business department of Guangdong Alpha Animation & Culture Co., Ltd. (廣東奧飛動漫文化股份有限公司) from January 2008 to August 2013. Mr. Hsieh has been appointed as a supervisor for master students and a visiting professor of school of animation and digital arts of the Community University of China (中國傳媒大學動畫與數字藝術學院) since May 2007. Mr. Hsieh obtained a bachelor degree in information engineering from Chung Yuan Christian University (中原大學) in Taiwan in January 1990. Mr. Hsieh obtained a master degree in commerce from the Research Institute for corporate management of Chinese Culture University (中國文化大學) in Taiwan in June 1992 and another master degree of business administration from National Taiwan University (國立臺灣大學) in June 2006. He obtained a master degree of business administration from Cheung Kong Graduate School of Business (CKGSB, 長江商學院) in September 2017.

Independent Non-executive Directors

Mr. Wu Chak Man (胡澤民), aged 46, is an independent non-executive Director. Mr. Wu was appointed as a Director on 19 June 2015. Mr. Wu is the chairperson of the audit committee. Mr. Wu has been appointed since 30 October 2014 and is currently a director of MFund GP. Ltd., which is involved in mobile internet investment in the PRC. Mr. Wu has been appointed since 16 June 2014 and is currently an independent non-executive director of Tian Ge Interactive Holdings Limited, a HK-listed company engaged in operating social video platforms in the PRC (stock code:1980). Mr. Wu worked as the chief executive officer of 91 Wireless Websoft Limited (now known as Baidu 91 Wireless), a company engaged in the development and operating of smartphone application distribution platforms from January 2011 to February 2014 and was responsible for the overall management and strategic planning of the company. Mr. Wu joined NetDragon group in 2004 and acted as the vice president and chief financial officer of NetDragon Websoft Inc. ("NetDragon"), a company whose shares were initially listed on the GEM in November 2007 and were subsequently listed on the main board of the Stock Exchange (stock code: 0777) in 2008. NetDragon is principally engaged in online games and mobile Internet business, and hence he has more than 6 years of financial management experience in public company. Mr. Wu retired from the position of vice president and chief financial officer of NetDragon in 2013. From 1995 to 1999, Mr. Wu served as the vice president, in charge of marketing, in Beco Biological Research Inc. a company engaged in health food and nutrition supplements business. Mr. Wu graduated with a bachelor degree in economics from the University of California, Berkeley in the United States in August 1994, and a master degree in business administration from Duke University in the United States in May 2004.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILE

Mr. Zhao Zhen (趙臻), aged 50, is an independent non-executive Director. Mr. Zhao was appointed as a Director on 19 June 2015. Mr. Zhao is a member of the remuneration committee and the nomination committee. Mr. Zhao worked as a Manager of System/Software Engineering in Hewlett-Packard from March 2004 to March 2008. Mr. Zhao obtained a bachelor degree majoring in aero-engine from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) (formally known as Nanjing Aeronautics College (南京航空學院)) in July 1990. He obtained a master degree of science in January 1996 and a master degree of science in October 1997 both from Rutgers, The State University of New Jersey in the United States.

Mr. Ge Ning (葛寧), aged 60, is an independent non-executive Director. Mr. Ge was appointed as a Director on 19 June 2015. Mr. Ge is the chairperson of the remuneration committee and a member of the audit committee and the nomination committee. From 2005 to 2017, Mr. Ge was a director of Wiscom System Co., Ltd. (江蘇金智科技股份有限公司), a PRC company listed on the Shenzhen Stock Exchange (stock code: 002090), which is principally engaged in the design, development, manufacturing and operation of power grid business. Mr. Ge was also the chairman of Jiangsu Jinzhi Holding Co., Ltd., (江蘇金智集團有限公司), a shareholder of Wiscom System Co., Ltd. (江蘇金智科技股份有限公司), until 2017. Mr. Ge graduated from Nanjing Science College (南京工學院) (now known as Southeast University (東南大學)) and completed a two-year course in electronic technology in January 1981. Mr. Ge completed an executive MBA programme and was awarded a master degree of business administration by China Europe International Business School (中歐國際工商學院) in November 2004.

Save as disclosed above, there are no other directorships held by our Directors in any listed company whose securities are listed on any stock exchange in Hong Kong or overseas within the three years preceding the date of this annual report.

SENIOR MANAGEMENT

Mr. Zheng Chen (鄭晨), aged 30, is the technology director of our Company and is responsible for planning strategic development and management of the development department of our Group. Mr. Zheng joined our Group in June 2012. Mr. Zheng obtained a bachelor degree of engineering majoring in software engineering in Nanjing University (南京大學), the PRC in June 2012.

Mr. Dai Weiyang (戴維揚), aged 29, is the product director of our Company and is responsible for the development direction and operation of the business department of our Group. Mr. Dai joined our Group in July 2012. Mr. Dai obtained a bachelor degree of engineering majoring in software engineering majoring in software engineering in Southeast University (東南大學), the PRC in June 2013.

Ms. Wei Honghong (韋紅紅), aged 33, is the sales director of our Company and is responsible for the overall planning and management of advertising sales and customer services of our Group. Ms. Wei joined our Group in July 2007. Ms. Wei obtained her bachelor degree in management majoring in information management and information system from Nanjing University (南京大學) in June 2007.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company believes that good corporate governance practices are very essential for maintaining and promoting investor confidence as well as the sustainable growth of the Company. The Board sets appropriate policies and implements relevant corporate governance practices with a view to further develop our business and achieve business growth. The Board is committed to strengthening the Company's corporate governance practices, to ensure transparency and accountability of the Company's operations.

The Group has adopted the code provisions set out in the corporate governance code (the"CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (the "Listing Rules") and the CG Code set out in Appendix 15 of the Rules Governing the Listing of Securities on the GEM of the Hong Kong Stock Exchange (the "GEM Listing Rules"), which were respectively applicable during the relevant periods after and prior to the Transfer of Listing. In the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code for the year ended 31 December 2018.

The Company regularly reviews its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standards set out in Rules 5.48 and 5.67 of the GEM Listing Rules (applicable to prior to the Transfer of Listing) and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Listing Rules (applicable to after the Transfer of Listing) as its code of conduct regarding the Directors' securities transactions. Having made specific enquiry to all the Directors of the Company, the Directors confirm that for the year ended 31 December 2018, they have complied with the required standards regarding directors' securities transactions.

COMPLIANCE WITH THE WRITTEN GUIDELINES FOR SECURITIES TRANSACTION BY THE RELEVANT EMPLOYEES

The Company has established written guidelines on the employees' securities transactions on no less exacting terms than the Model Code (the "Employees Written Guidelines") to regulate securities transactions by employees (including the Directors or employees of the subsidiaries or holding company of the Company) who are likely to possess inside information of the Company and/or its securities. The Company is not aware of any non-compliance of the Employees Written Guidelines by the employees during the year ended 31 December 2018.

Should the Company becomes aware of any restricted period for dealings in the Company's securities, the Directors and relevant employees shall be notified in advance.

BOARD OF DIRECTORS

The Board consists of nine Directors, including three executive Directors: Mr. Cheng Li, Mr. Zhang Lake Mozi and Mr. Hu Qingyang; three non-executive Directors: Ms. Li Juan (Chairperson of the Board), Mr. Wu Haiming and Mr. Hsieh Kun Tse; three independent non-executive Directors: Mr. Wu Chak Man, Mr. Zhao Zhen and Mr. Ge Ning.

The Board is responsible for supervising the management of the business and affairs of the Company and ensuring that it is managed in the best interests of the Shareholders and the Company as a whole while also taking into account the interests of other stakeholders of the Company. The Board is also responsible for formulating the business strategy, reviewing and monitoring the business performance of the Company, approving the financial statements and annual budgets as well as directing and supervising the management of the Company. Execution of operational matters and the powers thereof are delegated to the management by the Board with clear directions. Our management will provide updated reports to the Board on a regular basis to give a fair and understandable assessment of the performance, position, recent development and prospect of the Company in sufficient details.

The biographical details of the Directors of the Company are set out in the section headed "Directors and Senior Management's Profile" of this annual report. Save as the spousal relationship between Mr. Wu Haiming and Ms. Li Juan, there is no other relationship (including financial, business, family or other material/relevant relationships) between the members of the Board. Each executive Director is suitably qualified for his/her position, and has sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently.

Details of each Director's remuneration for the year ended 31 December 2018 are set out in notes 8 and 9 to the financial statements.

CHAIRPERSON AND THE CHIEF EXECUTIVE OFFICER

The Company supports the division of responsibilities of the Chairperson of the Board and the Chief Executive Officer in order to ensure balance of power and authorities. Ms. Li Juan is the Chairperson of the Company, and Mr. Cheng Li is the Chief Executive Officer of the Company.

The Chairperson provides leadership and is responsible for the overall operation and strategic planning of the Company, ensuring the effective functioning of the Board in accordance with good corporate governance practice and facilitating all Directors to contribute responsibly and diligently to the Board, while the Chief Executive Officer focuses on the daily management of the business of the Group, and implements such objectives, policies, strategies and business plans as approved and instructed by the Board.

INDEPENDENT ADVICES

The Directors and their committees shall have access to independent professional advisers' advices if considered necessary. The Directors may also seek independent professional advices on matters related to the Company to fulfill their responsibilities at the Company's expense after obtaining the approval of the Chairperson of the Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS

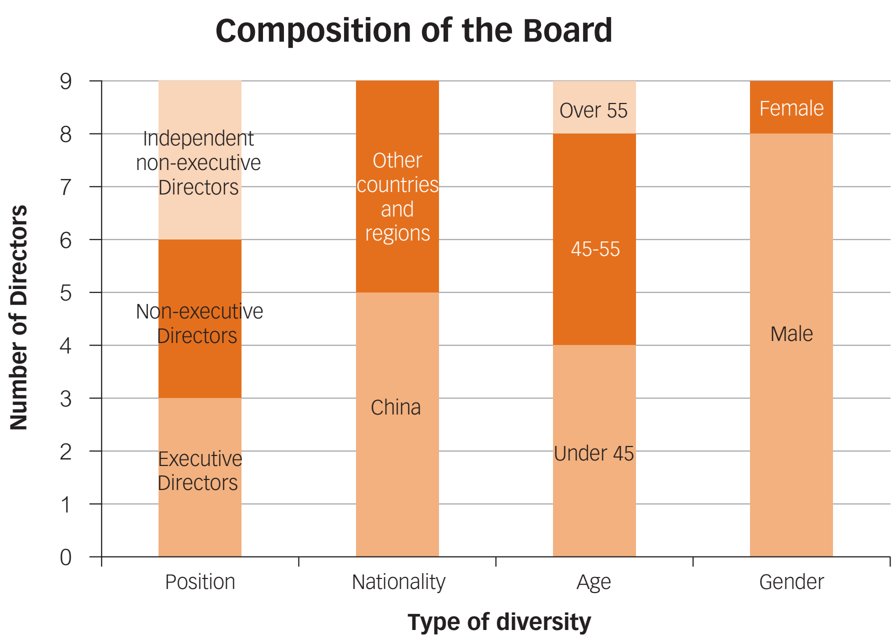
Independent non-executive Directors play a significant role in the Board by providing their independent judgments at the Board meeting and scrutinizing the Company's performance. Their views carry significant weight in the Board's decisions, in particular, they bring an impartial view on issues regarding the Company's strategy, performance and control. The independent non-executive Directors possess various skills and experience in their respective fields and provide their independent advices on the Company's business strategies, results and management and ensure that all interests of Shareholders have been taken into account and the interests of the Company and its Shareholders are protected. The executive Directors of the Company are suitably qualified for their position, and have sufficient experience to hold the position so as to carry out their duties effectively and efficiently.

For the year ended 31 December 2018, the Company has three independent non-executive Directors, representing at least one-third of the Board as required under Rules 3.10(1) and 3.10A, respectively of the Listing Rules. Furthermore, one of the independent non-executive Directors, namely Mr. Wu Chak Man possesses professional financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The Company has received the annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. As at the date of this report, none of the independent non-executive Directors has held any directorship in each other's companies or has any significant relationship with other Directors. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

BOARD DIVERSITY POLICY

The Company recognizes and embraces the benefits of board diversity. The Board adopted a board diversity policy on 19 June 2015. Selection of candidates will be conducted by the Board based on diversified perspectives, including but not limited to gender, race, cultural background, educational background, industry and professional experience so as to enhance the Board's operational efficiency and maintain a high standard of corporate governance. As at 31 December 2018, the diversity of the Board was as follow:



The perspectives, skills and experience of the Board members including but not limited to:

- Commercial operations and technical experience in related industry sectors
- Executive management and leadership skills
- Professional financial management expertise
- International/domestic business experience
- Government, legal and public policy experience
- Investment and financing experience

The final decision on the nomination of candidates to be elected as the Board members will be made based on the merits of relevant candidates and his/her possible contribution to the Board after taking into account the benefits of board diversity without focusing on a single diversity aspect. As at the date of this report, the nomination committee, after considering the measurable objectives, believes that the existing diversity of the Board will maintain its effective operation. The nomination committee will review the board diversity policy on a regular basis to ensure its effectiveness and achieve higher standard in a timely manner.

For details of the members of the Board, please refer to "Directors and Senior Management's Profile".

TRAINING AND SUPPORT FOR DIRECTORS

All Directors know their responsibilities as directors and the operation and business activities of the Company. The Company would give any newly appointed Director an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. The Directors have been informed of the requirement under code provision A.6.5 of the CG Code regarding continuous professional development. According to the records maintained by the Company, the existing Directors have received the following training during the year ended 31 December 2018 with an emphasis on the roles, functions and duties of a director of a listed company, the subjects of which covered corporate governance, regulations and regulatory updates and industry trends related to the Company's business, so as to be in line with the requirements of the CG Code on continuous professional development. The Directors participated in the sustainable development during the Reporting Period were as follows:

Name of Director	Types of Training
Executive Directors	
Mr. Cheng Li	A and B
Mr. Zhang Lake Mozi	A and B
Mr. Hu Qingyang	A and B
Non-executive Directors	
Ms. Li Juan	A and B
Mr. Wu Haiming	A and B
Mr. Hsieh Kun Tse	A and B
Independent non-executive Directors	
Mr. Wu Chak Man	A and B
Mr. Zhao Zhen	A and B
Mr. Ge Ning	A and B

A: Attend training/meetings arranged by the Company or other external parties (including in person or by electronic means of communication)

B: Reading the relevant materials

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance coverage in respect of potential legal actions against its Directors and officers.

MEETINGS

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Company from time to time. Directors may participate either in person or through electronic means of communications. The Board should hold at least 4 meetings annually. In 2018, the Board has held 4 regular meetings. Apart from regular Board meetings, the chairman also held one meeting with all independent non-executive Directors during the Year.

The attendance record of each Director at the meetings of the Board for the year ended 31 December 2018 is set out below:

Name of Director	Attendance/Number of meetings of the Board Number of Board Meeting(s)
Executive Directors	
Mr. Cheng Li	4/4
Mr. Zhang Lake Mozi	4/4
Mr. Hu Qingyang	4/4
Non-executive Directors	
Ms. Li Juan	4/4
Mr. Wu Haiming	4/4
Mr. Hsieh Kun Tse	4/4
Independent non-executive Directors	
Mr. Wu Chak Man	4/4
Mr. Ge Ning	4/4
Mr. Zhao Zhen	4/4

All Directors are provided with relevant materials relating to the matters brought before the meetings. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings. Notices of the regular Board meetings are given to the Directors at least 14 days in advance and Board procedures are complied with the articles of association of the Company (the "Articles of Association"), as well as relevant rules and regulations.

For the year ended 31 December 2018, the Company convened one annual general meeting on 15 June 2018, one extraordinary general meeting on 26 November 2018; and total seven proposed resolutions were duly passed at the general meetings by the way of poll. The above resolutions were: (1) to adopt the audited consolidated financial statements of the Group for the year ended 31 December 2017; (2) to declare a final dividend for the year ended 31 December 2017; (3) to re-elect the retiring directors; (4) to re-appoint the auditor; (5) to grant the Issuing Mandate, the Repurchase Mandate and the Extension Mandate to the Directors; (6) to approve and confirm the proposed replacement of the Original VIE Undertaking with the Revised Measures; and (7) to approve and confirm the proposed amendments to the Articles of Association. As Ms. Li Juan and Mr. Cheng Li are deemed to have a material interest in the proposed replacement of the Original VIE Undertaking and the proposed amendments to the Articles of Association, they had abstained from voting on the board resolutions approving the proposed replacement of the Original VIE Undertaking with the Revised Measures and the proposed amendments to the Articles of Association. As Mr. Wu Haiming, a non-executive Director, is the spouse of Ms. Li Juan, he had also abstained from voting on the board resolutions approving the proposed replacement of the Original VIE Undertaking with the Revised Measures and the proposed amendments to the Articles of Association. The attendance of each Director at the general meetings held in 2018 is set out below:

Name of Director	Attendance/Number of General Meeting(s)
Executive Directors	
Mr. Cheng Li	2/2
Mr. Zhang Lake Mozi	2/2
Mr. Hu Qingyang	2/2
Non-executive Directors	
Ms. Li Juan	2/2
Mr. Wu Haiming	2/2
Mr. Hsieh Kun Tse	2/2
Independent non-executive Directors	
Mr. Wu Chak Man	2/2
Mr. Ge Ning	2/2
Mr. Zhao Zhen	2/2

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors and non-executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 8 July 2015 subject to renewal, and can be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from 8 July 2015 subject to renewal and can be terminated by not less than three months' notice in writing served by either party on the other.

The Directors are subject to retirement by rotation and re-election of each Director at an annual general meeting at least once every three years in accordance with the Articles of Association. According to provisions in the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. The Articles of Association have no provisions relating to retirement of Directors upon reaching any age limit. The Articles of Association provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At the forthcoming annual general meeting of the Company (the "2018 AGM"), Ms. Li Juan, Mr. Cheng Li and Mr. Hu Qingyang shall retire by rotation on the 2018 AGM in accordance with Articles of Association. All of the said retiring Directors are eligible and are willing to be re-elected at the 2018 AGM. The Board and the Nomination Committee recommended the reappointment of these Directors. The circular of 2018 AGM of the Company containing the detailed information of the above retiring Directors as required by the Listing Rules will be sent with this annual report.

No Director proposed for re-election at the forthcoming annual general meeting has entered into a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than the normal statutory obligations.

BOARD COMMITTEES

The Board has established (i) an audit committee, (ii) a remuneration committee; and (iii) a nomination committee, with defined terms of reference. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance under the appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The primary duties of the audit committee of the Company are mainly to make recommendations to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of the financial reporting matters; and oversee internal control procedures of our Company. At present, the audit committee of our Company consists of three members, namely the independent non-executive Director Mr. Wu Chak Man, the non-executive Director Ms. Li Juan and the independent non-executive Director Mr. Ge Ning. Mr. Wu Chak Man is the chairman of the audit committee of the Company. Members of the audit committee of the Company comply with Rule 3.21 of the Listing Rules. The written terms of reference of the audit committee of the Company are posted on the Hong Kong Stock Exchange's website and the Company's website.

The audit committee of the Company had reviewed the Company's audited annual results for the year ended 31 December 2018, and was of the opinion that the relevant financial statements have been prepared in accordance with the applicable accounting standards and requirements and that adequate disclosure has been made. The audit committee of the Company has also reviewed the accounting principles and practices adopted by the Group, and the selection and appointment of the external auditor. In addition, the audit committee of the Company have reviewed the risk management and internal control system of the Company for the year 2018.

During the year ended 31 December 2018, the audit committee held four meetings to consider and approve among others the following:

(a) to review the Company's consolidated financial result for the year ended 31 December 2017, the three months ended 31 March 2018 and the six months ended 30 June 2018 before submission to the Board, with a focus on compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting of the audit committee;

(b) to discuss the effectiveness of the internal controls system throughout the Company, including financial, operational and compliance controls, and risk management;

(c) to review the accounting principles and practices adopted by the Company and other financial reporting matters;

(d) to review the engagement of the auditor and to make recommendations to the Board; and

(e) to review and update the terms of reference of the audit committee in order to comply with the codes and rules in effect from time to time as amended by the Hong Kong Stock Exchange.

The individual record of each member of the audit committee at the meeting is set out below:

Name of Director	Attendance/Number of Audit Committee Meeting(s)
Mr. Wu Chak Man	4/4
Mr. Ge Ning	4/4
Ms. Li Juan	4/4

REMUNERATION COMMITTEE

The primary duties of the remuneration committee of our Company are to make recommendation to the Board on the overall remuneration policy and structure of all Directors and senior management of our Company; to review performance-based remuneration; and to ensure none of our Directors or any of their associates (as defined under the Listing Rules) determine their own remuneration. The remuneration committee consists of three members, namely the independent non-executive Director Mr. Ge Ning, the independent non-executive Director Mr. Zhao Zhen and the executive Director Mr. Cheng Li. Mr. Ge Ning is the chairman of the remuneration committee. The written terms of reference of the remuneration committee are posted on the Hong Kong Stock Exchange's website and the Company's website.

During the Year, the remuneration committee had surveyed peer companies' remuneration package and reviewed the remuneration packages of the executive Directors and the senior management. The remuneration committee also reviewed the Share Option Scheme and the Award Plan adopted by the Company, as well as the benefit plans to the key employees.

For the year ended 31 December 2018, the Company has held one remuneration committee meeting. The record of attendance is set out below:

Name of Director	Attendance/Number of Remuneration Committee Meeting(s)
Mr. Ge Ning	1/1
Mr. Zhao Zhen	1/1
Mr. Cheng Li	1/1

NOMINATION COMMITTEE

The primary duties of the nomination committee are to review the structure, size and composition of the Board on regular basis; identify individuals suitably qualified to become Board members; assess the independence of the independent non-executive Directors; and make recommendations to the Board on matters related to the appointment or re-appointment of Directors. The nomination committee consists of three members, namely the non-executive Director Ms. Li Juan, the independent non-executive Director Mr. Ge Ning and the independent non-executive Director Mr. Zhao Zhen. Ms. Li Juan is the chairperson of the nomination committee.

The written terms of reference of the nomination committee have been revised and adopted on 5 October 2018. The primary regulation of the nomination committee is when making any recommendation, the nomination committee shall be bound by the restriction that a majority of the members of the Board shall at all times be persons who are Chinese nationals in accordance with the Nationality Law of the People's Republic of China. The written terms of reference of the nomination committee are posted on the Hong Kong Stock Exchange's website and the Company's website.

Nomination Policy

In assessing the suitability of a proposed candidate, the nomination committee uses the following factors as reference: (a) reputation; (b) available time; (c) diversity in all aspects of the Board, which representing the interests of the relevant sectors, including but not limited to gender, age, cultural and educational background, race, professional experience, skills, knowledge and service tenure; and (d) balanced distribution of skills and experience of the Board members, in order to provide different points of view, perspectives and insights, which enable the Board to perform its duties effectively and formulate appropriate strategies for the Company's core business as well as implement its succession plan and development. The above factors are for reference only and are not intended to cover all aspects. The final decision will be based on the merits of relevant candidates and his/her potential contribution to the Board.

During the Year, the Nomination Committee has reviewed the structure, size and the composition of the Board to ensure that the Board has a balance of speciality, skills and experience; reviewed and recommended the re-election of the retiring Directors standing for re-election at the Company's annual general meeting held on 15 June 2018, and considered diversified policy of Directors when selecting candidates of Directors; and made assessment of the independence of all the independent non-executive Directors.

For the year ended 31 December 2018, the Company has held one nomination committee meeting. The record of attendance is set out below:

Name of Director	Attendance/Number of Nomination Committee Meeting(s)
Ms. Li Juan	1/1
Mr. Ge Ning	1/1
Mr. Zhao Zhen	1/1

DELEGATION OF THE CORPORATE GOVERNANCE FUNCTION

The Board has delegated the responsibilities of corporate governance as set out under Code Provision D.3.1 of the CG Code to the Audit Committee. During the Year, the Audit Committee has reviewed and monitored the corporate governance policies and practices of the Company; the training and continuous professional development of the Directors and senior management; the compliance status of the Company on such policies and practices as required by the laws and regulations, the Model Code and the Employees' Written Guidance; the compliance status of the Company on the CG Code; and the disclosure set out in this Corporate Governance Report.

COMPANY SECRETARY

The company secretary of the Company is Mr. Zhang Lake Mozi. Mr. Zhang Lake Mozi was appointed as the company secretary on 11 February 2015 and act as the sole company secretary of the Company from 20 August 2018. Ms. Ng Wing Shan resigned as a joint company secretary of the Company on 20 August 2018. Mr. Zhang Lake Mozi's biographical details are set out in the section headed "Directors and Senior Management's Profile" of this annual report. Mr. Zhang Lake Mozi has informed the Company that he has received no less than 15 hours of professional training and satisfied the requirements under the Rule 3.28 of the Listing Rules in 2018. The Company considers the training of the company secretary in 2018 is in compliance with the requirements under Rule 3.28 of the Listing Rules.

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for the Year.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The responsibilities of Baker Tilly Hong Kong Limited, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditor's Report" of this annual report.

AUDITOR'S REMUNERATION

The audit committee is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the authorized external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any questions regarding the resignation or dismissal of the external auditors.

As Ernst & Young and the Company have not been able to reach an agreement on the audit fee for the financial year ended 31 December 2018. Termination of Ernst & Young as auditor of the Company has been effective from 30 November 2018. As reviewed and recommended by the audit committee, Baker Tilly Hong Kong Limited has been appointed as the auditor of the Company by the Board to fill the casual vacancy following the termination of Ernst & Young, and to hold office until the conclusion of the next annual general meeting of the Company. There was no disagreement between the Board and the audit committee on the selection, appointment, resignation or dismissal of the external auditor. Details are set out in the Company's announcement regarding the change of auditor published on 30 November 2018. During the year ended 31 December 2018, the total fee paid/payable in respect of audit and non-audit services provided by the Company's external auditors is set out below:

Items of auditor's services	2018 Amount RMB'000
Audit services:	
Annual audit service	**700**
Interim review service	**300**
Total	**1,000**

RISK MANAGEMENT AND INTERNAL CONTROLS

The Group recognises that good risk management is essential for the long-term and sustainable growth of a business. The Board is responsible for maintaining adequate and effective risk management and internal controls to protect assets of Shareholders and the Group and is also responsible for its effectiveness. The Board entrusts the audit committee to review the Group's internal control system. Management is responsible for the design, implementation and maintenance of a sound and effective internal control system underpinning the risk management framework. While taking into full account of the new requirements effective from 1 January 2016 under the Listing Rules brought by Hong Kong Exchanges and Clearing Limited relating to risk management and internal control, the management also takes into consideration of the Group's actual business and operating environment in formulating the risk management and control framework.

The objectives of the risk management and internal control framework of the Group include:

- to enhance the risk management and internal control of the Group in compliance with the requirement of Listing Rules;
- to establish and constantly improve the risk management and internal control system;
- to implement a top-down and company-wide risk management system that covers every aspect of the business; and
- to keep the baseline risk within an acceptable range.

Risk Management Process

The Group was engaged in the internet industry, so its business is characterized by diversity and rapid change. The Group has adopted a three-tier risk management approach to dynamically identify, assess, mitigate and handle risks. At the first line of defence, business units are responsible for identifying, assessing and monitoring risks associated with each business or deal, and report such results to the management. As the second line of defence, the management collects, sorts out and analyzes the significant risks of the Group to formulate its control policies and adopt appropriate corresponding strategies and shall report to the audit committee before reporting to the Board. The management ensures that the first line of defence is effective. As the final line of defence, the audit committee of the Company ensures that to assess and determine the nature of risk and its acceptability to ensure achieving strategic goals, and the first and second lines are effective through continuous inspection and monitoring.

Internal Control

We are in compliance with the five key factors of the entire internal control structure issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), which includes environment control, risk assessment, control activity, information and communication and supervision for setting up the internal control system.

The management of the Group is responsible for designing, implementing and maintaining the effectiveness of the internal control system. The Board and the audit committee are responsible for supervising and monitoring the appropriateness of the management's internal control and whether such internal control is effectively implemented.

The Group's internal control system clearly defines the management's responsibilities, authorizations and approvals of the parties regarding key actions, and formulates clear policies and procedures on important business processes and conveyed such policies and procedures to its employees. They mainly covered:

- sales and money collection management
- procurement and payment management
- asset management (including fixed asset and intangible asset)
- research and development management
- human resources and remuneration management
- capital management
- financial report management
- tax management
- general control of information system

The Board and the audit committee review the effectiveness and adequacy of risk management and internal controls semi-annually. The Board and audit committee also took adequacy of resources, capacity and experience of employees, training courses and relative budget of the Company's accounting and financial reporting function into consideration.

Such procedures could reasonably but not absolutely guarantee that there was no material error, omission and fraud, and reduce but not remove mistakes in the Company's operating system and target business procedures.

The Company has conducted a promotion of business ethics for our Directors, staff and others who have contacts with the Company (e.g. clients and suppliers) in order to enhance its fraud prevention and control. The Company has also established various reporting channels in accordance with different types of fraud and misconduct or persons of different ranks with a policy to protect whistleblowers.

During the Year, the Group has conducted a quarterly review on whether there is a need for an internal audit department. Given the Group's relatively simple organisational structure and operation structure, as opposed to diverting resources to establish a separate internal audit department, the Board, supported by the audit committee, is directly responsible for risk management and internal control systems of the Group and for reviewing its effectiveness. The Group will continue to review whether necessary changes should be made regarding the establishment of an independent internal audit department at the appropriate time.

During the Year, based on information furnished to it and on its own observations, the Board, through the audit committee had reviewed and is satisfied with the effectiveness and adequacy of present internal controls and risk management of the Company and considers that the Group's risk management and internal control systems for the year ended 31 December 2018 was effective and adequate.

DISCLOSURE OF INSIDE INFORMATION

The Company acknowledges its responsibilities under the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision. The Company has established a policy on disclosure of inside information and reviewed its effectiveness regularly. The procedures and internal controls for the handling and dissemination of inside information include:

- the Company conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;

- the Company has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;

- the Company has strictly prohibited unauthorised use of confidential or inside information;

- the Company has established and implemented procedures for responding to external enquiries about the Company's affairs, so that only the executive Directors, company secretary and investor relations officers are authorised to communicate with parties outside the Company; and

- If any employee is aware of any project, transaction, information or event which may constitute insider information, he/she should contact the Company Secretary as soon as possible. Analysis and consultations with the Directors and senior executives will be made so as to identify whether any such information constitutes inside information and is required to be disclosed to the public pursuant to the Securities and Futures Ordinance.

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders and investors of the Company. Therefore, the Company is committed to maintaining a high degree of transparency to ensure the investors and the Shareholders receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.ci123.com. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Company's strategies, operations, management and plans. The Company also encourages Shareholders' active participation in annual general meetings and other general meetings or other proper means. As such, the Company must send notices to Shareholders for convening of annual general meetings not less than twenty-one (21) days and twenty (20) clear business days before the meeting and not less than fourteen (14) days and ten (10) clear business days for all other general meetings including extraordinary general meeting. Members of the Board and of the various Board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. The Company's external auditor will also attend the annual general meeting to answer questions relating to the conduct of the audit, the auditor's report and auditor independence. The Company's Shareholders may also propose candidates for election as a Director of the Company according to the procedures set out in the Company Website.

Separate resolutions would be proposed at the general meeting on each substantially separate issue. The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A resolution put to the vote of a meeting shall be decided by way of a poll. An external scrutineer will be appointed to monitor and count the votes cast by poll. The results of the voting by poll will be declared at the meeting and published on the websites of The Stock Exchange of Hong Kong Limited and the Company respectively.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene an extraordinary general meeting and put forward proposals at general meetings

Pursuant to Article 58 of the Articles of Association, the Board may convene an extraordinary general meetings whenever it thinks fit. Any one or more Members holding at the date of deposit of the requisition no less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be convened by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. Shareholders who wish to propose a resolution may request the convening of a general meeting of Shareholders and submit a resolution at the meeting in accordance with the above requirements and procedures.

Procedures for Shareholders to send their enquiries and concerns to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to Mr. Zhang Lake Mozi, the company secretary of the Company via following:

Recipient: Mr. Zhang Lake Mozi
Address: Unit 1905, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
Telephone number: +852 3742 7101
Fax number: +852 3153 4867

The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

DIVIDEND POLICY

Pursuant to Code Provision E.1.5 of the CG Code, the Company should have a policy on payment of dividends.

The Company has formulated its dividend policy. Any final dividends declared by the Company must be approved by an ordinary resolution of the Shareholders at a general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the Shareholders such interim dividends. The proposed declaration of dividends will be at the discretion of our Directors and will depend on our earnings, financial condition, capital requirements, surplus and any other factors that our Directors may consider relevant. The declaration and payment of the dividend is also subject to any restrictions under the Companies Law of the Cayman Islands and the Articles of Association. The Dividend Policy will be reviewed and revised from time to time by the Board when necessary and there can be no assurance that dividends will be paid in any particular amount for any given period. Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

CONSTITUTIONAL DOCUMENTS

The Company has duly passed a special resolution to approve and confirm the proposed amendments to the Articles of Association at the extraordinary general meeting held on 26 November 2018. As disclosed by the Company on 26 November 2018, the aforesaid amendments to the Articles of Association have the following effects:

- the majority of the Board shall consist of PRC nationals;
- the Board is restricted to appoint or propose to the Shareholders to elect Directors from candidates nominated by the Nomination Committee in accordance with the terms of the reference of the Nomination Committee;
- the Shareholders have no right to propose any amendment to the terms of reference of the Nomination Committee which has not been proposed by the Board.

The latest Articles of Association are posted on the Hong Kong Stock Exchange's website and the Company's website on 26 November 2018.

Save as disclosed above, there was no significant change in the Articles of Association for the year ended 31 December 2018.

DIRECTORS' REPORT

The Directors are pleased to present their report and audited accounts of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 1 to the financial statements.

BUSINESS REVIEW

Detailed business review and future development of business is set out in the sections of "Chairpersons's Statement" and "Management Discussion and Analysis" of this annual report. Relevant review and discussions form part of this directors' report. As far as the Board is aware, the Company and its subsidiaries have complied in material respects with the relevant laws and regulations that have a significant impact on their business and operation.

USE OF PROCEEDS

The Company's net proceeds from the Placing amounted to approximately HK$276.4 million (the "Net Proceeds") after taking into account the partial exercise of the over-allotment option in connection with the Listing (the "Over-allotment Option"). For the year ended 31 December 2018, the Group had utilised approximately HK$200.8 million of the Net Proceeds. The unutilised Net Proceeds in the amount of approximately HK$75.6 million has been deposited in banks.

The Company has adjusted the allocation of the Net Proceeds a few times after Listing. Reference is made to the announcement of the Company dated 3 July 2018 for the latest proposed allocation of the Net Proceeds. As disclosed in the announcement of 3 July 2018, HK$166.6 million of the Net Proceeds is allocated for acquisition of or investment in companies engaging in CBM and family related business chain and related technology research and development. The Group is a vertical online platform for the CBM market. In relation to its business development, family-related business of the Group refers to business that uses Internet technology to address the needs of new generation home consumers as target customers, such as early education, entertainment, health and services. On the basis of its existing core business, the family-related business of the Group still adheres to the original family-based user groups of its CBM platform, and forms a new maternal and child ecological layout with diversified maternal and child family services. It also extends the traditional and single maternal and child services to several cross-sector segments including health, education, finance and entertainment, further expanding the types of family services and customer reach, prolonging user life-cycle, and meeting the increasing long-tail demands from the mother-child groups.

Part of the Net Proceeds allocated for acquisition of or investment in companies engaging CBM and family related business chain and related technology research and development as mentioned above was originally allocated for development of e-commerce business and related O2O business as well as acquisition of or investment in other O2O and CBM related businesses. The Directors consider that there have been rapid changes in the Internet industry and the competition in online advertising and e-commerce market and related O2O business is intense. In relation to the CBM and family related business chains, the Internet industry has experienced rapid changes in terms of its greater demand for diversified contents for online platforms such as games, animations and audio and video contents, and advancements and innovations in technologies such as artificial intelligence technology, blockchain technology and cloud technology. As such, the Group plans to adjust the use of the Net Proceeds accordingly. By allocation of the Net Proceeds for family-related businesses as mentioned above, the Group intends to expand into new core sectors such as new socialized retail, family medical, family education and internet technology with external empowerment. Leveraging the investments in the companies engaged in relevant new sectors, the Company will be able to reduce its costs to a certain extent and enter such new sectors in a quicker manner, as well as gain technology reserves and Internet traffic from new resources. For further details of the Group's investments in this regard, please refer to "financial assets at fair value through other comprehensive income" above.

Details of the original allocation of net proceeds set out in the prospectus and the revised allocation of net proceeds of the Company as at the date of this report as follows:

Use of Net Proceeds	Original Allocation HK$ million	Revised Allocation as at 26 February 2016 HK$ million	Revised Allocation as at 15 December 2017 HK$ million	Revised Allocation as at 2 May 2018 HK$ million	Revised Allocation as at 3 July 2018 HK$ million	Utilized Amount as at 31 December 2018 HK$ million	Unutilized Amount as at 31 December 2018 HK$ million
Strengthening research and development capabilities	55.3	52.8	52.8	44.8	–	–	–
Enhancing the user base and Internet traffic of our Platform	55.3	49.6	49.6	49.6	–	–	–
Developing our e-commerce business and related O2O business	55.3	44.9	44.9	–	–	–	–
Acquisition of or investment in other companies engaging in O2O and CBM related businesses	55.3	19.3	19.3	–	–	–	–
Enhancing marketing and promotional services	27.6	24.9	24.9	24.9	24.9	14.0	10.9
Working capital and other general corporate purposes	27.6	24.9	24.9	24.9	24.9	20.2	4.7
Providing loan facilities	–	60.0	–	–	–	–	–
Acquisition of property or land for the construction of the Company headquarters	–	–	60.0	60.0	60.0	–	60.0
Acquisition of or investment in companies engaging in CBM and family related business chains and companies engaging in related technology research and development	–	–	–	72.2	166.6	166.6	–
Total	276.4	276.4	276.4	276.4	276.4	200.8	75.6

As at the date of this report, the Company has not utilized the allocated amount for acquiring property or land for the construction of the headquarters of the Company. As disclosed in the announcement dated 27 March 2018, the Company is currently in negotiations with the Management Committee of the Software Valley of Nanjing, the PRC* (中國(南京)軟件谷管理委員會) for acquiring land for construction and development of the Group's new headquarters in the PRC. It is expected that the subscription will be completed in 2019.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page 164 of the annual report. The summary does not form part of the audited financial statements.

RESULTS AND DIVIDEND

The Group's results for the year ended 31 December 2018 are set out in the consolidated financial statement on page 91.

No interim dividend was paid by the Company during the financial year of 2018.

The Board does not recommend the payment of a final dividend for the twelve months ended 31 December 2018 (twelve months ended 31 December 2017: a final dividend of HK$0.0015 per share and HK$1,538,493 in total).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2018 AGM, the transfer books and register of members of the Company will be closed from 11 June 2019 (Tuesday) to 14 June 2019 (Friday), both days inclusive, during which period no transfer of Shares can be registered. In order to qualify for attending and voting at the 2018 AGM, all Shares transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 22th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 10 June 2019 (Monday).

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in the Group's property, plant and equipment during the Year are set out in note 14 to the financial statements.

BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2018 are set out in note 26 to the financial statements.

SHARE CAPITAL

Details of the movement in the Company's share capital during the Year are set out in note 28 to the financial statements.

TRANSFER OF LISTING

The shares of the Company had been listed on the GEM of the Stock Exchange since 8 July 2015 and were transferred to the Main Board of the Stock Exchange since 8 October 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

RESERVES

Details of the movement in reserves of the Company and the Group during the Year are set out in note 38 and consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves that are available for distribution, calculated in accordance with the Companies Law, amounted to approximately RMB195.7 million (2017: RMB195.6 million).

DIRECTORS' REPORT

DIRECTORS

The Directors as of 31 December 2018 and up to the date of this report are:

Executive Directors

Mr. Cheng Li
Mr. Hu Qingyang
Mr. Zhang Lake Mozi

Non-executive Directors

Ms. Li Juan *(Chairperson)*
Mr. Wu Haiming
Mr. Hsieh Kun Tse

Independent non-executive Directors

Mr. Wu Chak Man
Mr. Zhao Zhen
Mr. Ge Ning

Pursuant to the Articles of Association, three Directors of the Company, including Ms. Li Juan, Mr. Cheng Li and Mr. Hu Qingyang shall retire at the 2018 AGM and, being eligible, offer themselves for re-election at the 2018 AGM.

DIRECTORS' SERVICE CONTRACTS

Each of our executive and non-executive Directors entered into a service contract with the Company for an initial term of three years commencing from 8 July 2015 subject to renewal, and can be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from 8 July 2015 subject to renewal, and can be terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, none of the Directors who proposed to be re-elected at the forthcoming annual general meeting of the Company has entered into a service contract that are not determinable within one year without payment of compensation (other than statutory compensation).

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in the section headed "Connected Transactions" of this report and note 33 (Related Party Transactions) to the financial statements, no Director or any entity related to the Directors had a material interest, either directly or indirectly, in any transactions, arrangements and contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the Year.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURE

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATION

As at 31 December 2018, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise have been notified to the Company and the Hong Kong Stock Exchange pursuant to Appendix 10 of the Listing Rules are as follows:

LONG POSITIONS IN THE SHARES OF THE COMPANY

Name of Director	Nature of Interest		Number of Shares or Underlying Shares	Approximate Percentage of Shareholding
Ms. Li Juan[(1)]	Interest in a controlled corporation		409,200,000	
	Interest of concert party		120,000,000	
		Total:	529,200,000	51.60%
Mr. Wu Haiming[(1)]	Interest of spouse		529,200,000	51.60%
Mr. Cheng Li[(2)]	Interest in a controlled corporation		120,000,000	
	Interest of concert party		409,200,000	
		Total:	529,200,000	51.60%

Notes:

(1) Each of Loyal Alliance Management Limited ("Loyal Alliance") and Prime Wish Holdings Limited ("Prime Wish") is directly and wholly owned by Ms. Li Juan, who is therefore deemed to be interested in all the shares held by each of Loyal Alliance and Prime Wish. Ms. Li Juan and Mr. Cheng Li entered into an acting in concert party agreement dated 19 June 2015, and are therefore deemed to be interested in the interests of each other. Mr. Wu Haiming, a non-executive Director, is the spouse of Ms. Li Juan, and therefore is deemed to be interested in the interests of Ms. Li Juan.

(2) Victory Glory Holdings Limited ("Victory Glory") is directly and wholly owned by Mr. Cheng Li, who is therefore deemed to be interested in all the shares held by Victory Glory. Ms. Li Juan and Mr. Cheng Li entered into an acting in concert party agreement dated 19 June 2015, and are therefore deemed to be interested in the interests of each other.

INTERESTS IN OTHER MEMBERS OF THE GROUP (LONG POSITIONS)

Name of Director	Name of Subsidiary	Nature of Interest	Approximate Percentage of Shareholding
Ms. Li Juan[1]	Nanjing Xihui Information Technology Company Limited* (南京矽滙信息技術有限公司) ("Nanjing Xihui")[2]	Beneficial owner	85%
	Nanjing Xinchuang Micro Machinery and Electronic Technology Company Limited* (南京芯創微機電技術有限公司) ("Nanjing Xinchuang")[2]	Beneficial owner	85%
Mr. Wu Haiming[1]	Nanjing Xihui[2]	Interest of spouse	85%
	Nanjing Xinchuang[2]	Interest of spouse	85%
Mr. Cheng Li	Nanjing Xihui[2]	Beneficial owner	15%
	Nanjing Xinchuang[2]	Beneficial owner	15%

Notes:

(1) Mr. Wu Haiming, a non-executive Director, is the spouse of Ms. Li Juan, and therefore deemed to be interested in the interests of Ms. Li Juan.

(2) Pursuant to the contractual arrangement, each of Nanjing Xinchuang and Nanjing Xihui is deemed to be a wholly owned subsidiary of the Company.

Save as disclosed above, as at 31 December 2018, none of the Directors nor chief executives of the Company held an interest or short positions 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) that was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or were recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the required standard of dealings by Directors pursuant to Appendix 10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware, as at 31 December 2018, the following persons (not being Directors or chief executives of the Company) have or be deemed or taken to have interests and/or short positions in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO:

LONG POSITIONS IN THE SHARES OF THE COMPANY

Name	Nature of Interest	Number of Shares or Underlying Shares	Approximate Percentage of Shareholding
Loyal Alliance[(1)]	Beneficial owner	193,200,000	18.84%
Prime Wish[(1)]	Beneficial owner	216,000,000	21.06%
Victory Glory[(2)]	Beneficial owner	120,000,000	11.70%
Properous Commitment[(3)]	Beneficial owner	51,600,000	5.03%
TMF Trust (HK) Limited[(3)]	Trustee	51,600,000	5.03%

Notes:

(1) Each of Loyal Alliance and Prime Wish is directly and wholly owned by Ms. Li Juan.

(2) Victory Glory is directly and wholly owned by Mr. Cheng Li.

(3) Properous Commitment is directly held by TMF Trust (HK) Limited, a professional trustee engaged by the Company for the operation of the Share Award Plan.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors of the Company whose interests and short positions are set out in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

SHARE AWARD PLAN

As stated in the Prospectus, the Company adopted a share award plan (the "Plan") within 12 months from the Listing Date, so as to recognize and appreciate the contribution of all qualified employees towards the growth and development of the Group. The Board has adopted the Plan on 6 July 2016. Mr. Hsieh Kun Tse, the non-executive Director of the Company, has transferred the entire issued share capital of Properous Commitment Holdings Limited ("Properous Commitment") which in turn holds 51,600,000 of the Shares of the Company, to the trustee at nil consideration on 8 September 2016. The trustee will hold on trust the award Shares for the benefit of the selected employees in accordance to the terms of the trust deed, until such award Shares are vested in the relevant selected employees in accordance with this Plan.

The plan is discretionary-based, and the Board has authorized the Share Award Plan Committee to manage the Plan, members of which include the Controlling Shareholder and executive Director Mr. Cheng Li, and the independent non-executive Director Mr. Ge Ning. Subject to the requirements of the Main Board Listing Rules and all applicable laws from time to time, the Share Award Plan Committee shall make recommendations for the Board's approval. The Share Award Plan Committee shall be responsible for the administration of the Plan as well as communication with the trustee and the selected employees, including but not limited to the allocation of the award Shares to the selected employees upon obtaining such approval/authorization from the Board, and purchasing the award Shares on the market, as well as transferring the vested Shares to the selected employees. Before the vesting date, the selected employees have no right or interest in the award Shares (including the right to the dividends).

The maximum number of award Shares shall not exceed 10% of the issued share capital of the Company (including new Shares and existing Shares) from time to time, whereas the maximum number of Shares to be granted to a selected employee shall not exceed one percent (1%) of the issued share capital of the Company from time to time. The Directors have confirmed that the Company does not currently intend to issue any new Shares under the Plan. If new shares are to be issued under the Plan and assuming there are no existing shares to be used under the Plan, the maximum number of new shares to be issued will be 50,966,200 Shares as at the date of this report (taking into account of the current issued share capital of 1,025,662,000 Shares and 51,600,000 Shares held by Properous Commitment), representing approximately 4.97% of the existing issued share capital of the Company. The Company will seek a specific mandate in this regard as the grantees may be connected persons of the Company.

The Plan shall have valid and effect for ten years from the date of adoption to 5 July 2026. As at the date of this report, no Shares have been granted to qualified employees under the Plan.

For details of the Plan, please refer to the announcements of the Company dated 7 July 2016 and 14 July 2016 respectively. So far as the Directors are aware, Properous Commitment and TMF Trust (HK) Limited have complied with the terms of trust deed as at the date of this report.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 19 June 2015 (the "Share Option Scheme") for the purpose of providing incentive or rewarding eligible persons (including the Directors or employees (whether full time or part time), consultants or advisors of our Group) for their contribution to, and continuing efforts to promote the interests of our Group and for such other purposes as the Board may approve from time to time. No share option has been granted under the Share Option Scheme since its adoption by the Company.

The Share Option Scheme became effective on the date of the Company's listing (8 July 2015) and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 100,000,000 shares, representing 10% of the shares of the Company in issue as at the date of adoption of the Share Option Scheme and 9.75% of the shares of the Company in issue as at the date of this annual report. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a Director, chief executive or substantial Shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Option). In addition, any share options granted to a substantial Shareholder or an independent non-executive Director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, are subject to Shareholders' approval in advance at a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer upon payment of a nominal consideration of RMB1 in total by the grantee. The exercise period of the share options granted is determined by the Directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised.

The exercise price of the share options shall be not less than the highest of (i) the Hong Kong Stock Exchange closing price of the Company's shares on the date of offer of the share options, which must be a date on which the Hong Kong Stock Exchange is open for business of dealing in securities; (ii) the average Hong Kong Stock Exchange closing price of the Company's shares for the five trading days immediately before the date of offer; and (ii) the nominal value of the Company is share as at the date of offer.

No share options were granted from the date of adoption to the year ended 31 December 2018 and no share options were outstanding under the Scheme as at 31 December 2018 and 2017.

COMPLIANCE WITH QUALIFICATION REQUIREMENTS AND LAWS AND REGULATIONS

The Group's primary business is considered to be value-added telecommunications services, a sector where foreign investment is subject to significant restrictions under the present PRC laws and regulations. Accordingly, with the restriction of the current PRC laws and regulations and the implementation of local competent authorities, the Company cannot acquire Nanjing Xihui and Nanjing Xinchuang, which hold certain licenses and permits required for our primary business. As a result the Group entered into a series of contractual arrangement with Nanjing Xihui and Nanjing Xinchuang and their respective registered shareholders (the "Structured Contracts") in order to conduct the said business, and to assert management control over the operations of and enjoy the economic benefits derived from Nanjing Xihui and Nanjing Xinchuang. For details of the Contractual Arrangement, please refer to the section headed "Contractual Arrangement" of this annual report.

In addition, under the current PRC laws and regulations, a foreign investor wishing to acquire any equity interest in a value-added telecommunications business in the PRC must also demonstrate a good track record and operating experience in providing value-added telecommunications services overseas ("Qualification Requirements").

As far as the Directors are aware, as at the date of this report, the Company has taken all reasonable steps to ensure that such Qualification Requirements are met if and when the PRC laws and competent authorities substantially allow foreign investors to invest in value-added telecommunications services in the PRC. The Company will continue to communicate with the relevant governmental authorities and provide updates where necessary.

Due to the nature of our business, the Company is significantly affected by PRC laws and regulations, including laws and regulations of telecommunications services, those relevant to advertising service, information security and privacy protection as well as intellectual property rights. As far as the Directors are aware, the Company had no material breach of any relevant laws and regulations or received any legal litigation in 2018. The Company reduced its potential legal risk through different management and monitoring systems, such as regular review of the effectiveness of internal control system, defined duty division and provided training to employees and management related to such laws and regulations and recruit legal adviser as professional consultant.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders during the year ended 31 December 2018.

DEED OF NON-COMPETITION

The Controlling Shareholders of the Company, namely Ms. Li Juan, Mr. Cheng Li, Mr. Wu Haiming, Loyal Alliance Management Limited, Prime Wish Holdings Limited and Victory Glory Holdings Limited (the "Controlling Shareholders") have entered into a deed of non-competition (the "Deed of Non-Competition") on 19 June 2015. Pursuant to the Deed of Non-Competition, each of the Controlling Shareholders will not and will procure each of their respective close associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with our businesses. Relevant information on the Deed of Non-Competition was set out in the section headed "Relationship with our Controlling Shareholders" in the Prospectus and the Deed of Non-Competition became effective since the Listing Date.

The Company has received confirmations from the Controlling Shareholders of their compliance with the terms of the Deed. The Controlling Shareholders declared that they have fully complied with the Deed of Non-Competition for the Year. The independent non-executive Directors have reviewed the confirmations from the Controlling Shareholders and concluded that the Deed of Non-Competition has been complied with and has been effectively enforced.

DIRECTORS, CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

None of the Directors, Controlling Shareholders and substantial Shareholders or their respective associate had material interest in any business that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2018.

CONNECTED TRANSACTIONS

As disclosed in the section headed "Contractual Arrangement" of this annual report, the business operations of the PRC Contractual Entities constitute a business restricted to foreign investment in the PRC, therefore, we cannot directly acquire equity interests in the PRC Contractual Entities. As a result, our Group has entered into Structured Contracts narrowly tailored to provide our Group with control over the PRC Contractual Entities and grant our Group the right to acquire the equity interests of the PRC Contractual Entities when and to the extent permitted by the PRC laws and regulations. Under the Contractual Arrangement, our Group supervises and controls the business operations of the PRC Contractual Entities and derives economic benefit from the PRC Contractual Entities.

The independent non-executive Directors of the Company have, for the purpose of Rule 14A.55 of the Listing Rules, reviewed the continuing connected transactions set out above and confirmed that these continuing connected transactions have been entered into by the Group (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) according to the agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Moreover, our independent non-executive Directors have reviewed the Contractual Arrangement and confirmed that: (i) the transactions carried out during the year ended 31 December 2018 have been entered into in accordance with the relevant provisions of the Contractual Arrangement so that the revenue generated by the PRC Contractual Entities have been mainly retained by our Group; and (ii) no dividends or other distributions have been made by the PRC Contractual Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

Baker Tilly Hong Kong Limited, the Company's auditor, were engaged to report on the Group's Continuing Connected Transactions 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 Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. After performing the procedure related to continuing connected transactions, Baker Tilly Hong Kong Limited confirmed that:

Based on the foregoing, in respect of the disclosed continuing connected transactions:

a. nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

b. nothing has come to our attention that causes us to believe that the transactions were not entered into, in all material respects, in accordance with a series of contractual arrangements disclosed in the section "Contractual Arrangements" of the prospectus of the Company dated 30 June 2015 governing such transactions.

c. nothing has come to our attention that causes us to believe that the transactions were not entered into, in all material respects, in accordance with a business cooperation agreement entered by a subsidiary of the Company, Xibai (Nanjing) Information Technology Company Limited ("Nanjing Xibai") with Hubei Xiyuan Information Technology Company Limited ("Hubei Xiyuan") and Hubei Xiyuan's shareholders, Ms. Li Juan and Mr. Cheng Li, on 29 October 2018 governing such transactions.

d. nothing has come to our attention that causes us to believe that the dividends or other distributions has been made by Nanjing Xihui, Nanjing Xinchuang, Nanjing Fuyuan Technology Company Limited ("Nanjing Fuyuan") and Hubei Xiyuan to the holders of its equity interest which are not otherwise subsequently assigned or transferred to the Group.

Baker Tilly Hong Kong Limited have issued their letter containing their findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

CONTRACTUAL ARRANGEMENT

Nanjing Xihui is deemed to be a wholly-owned subsidiary of our Company pursuant to the Contractual Arrangement and is principally engaged in the provision of marketing and promotional services and the licensing of smart-hardware devices. It was established as a limited liability company in the PRC on 24 May 2013.

Nanjing Xinchuang is deemed to be a wholly-owned subsidiary of our Company pursuant to the Contractual Arrangement and is principally engaged in the provision of marketing and promotional services and e-commerce business. It was established as a limited liability company in the PRC on 14 April 2005.

Hubei Xiyuan is deemed to be a wholly-owned subsidiary of the Company pursuant to the Contractual Arrangement and is principally engaged in the provision of marketing and promotional services and the licensing of smart-hardware devices. It was established as a limited liability company in the PRC on 29 October 2018.

Summary of the information in relation to the Contractual Arrangement and the Operating Companies are as follows.

1. The PRC Contractual Entities (Nanjing Xihui, Hubei Xiyuan and Nanjing Xinchuang)

1.1 Information on the Operating Companies and their Registered Owners

Nanjing Xinchuang, Hubei Xiyuan and Nanjing Xihui are deemed to be the wholly-owned subsidiaries of the Company pursuant to the Contractual Arrangement.

The registered shareholders of Nanjing Xinchuang, Hubei Xiyuan and Nanjing Xihui are Ms. Li Juan and Mr. Cheng Li, holding 85% and 15% of their interest respectively (the "Relevant Shareholders").

1.2 Business Overview of the Operating Companies

Nanjing Xihui is principally engaged in the provision of marketing and promotional services the licensing of smart-hardware devices.

Nanjing Xinchuang is principally engaged in the provision of marketing and promotional services and e-commerce business.

Hubei Xiyuan is principally engaged in the provision of marketing and promotional services and intelligent hardware product licensing business.

The PRC Contractual Entities hold certain licences and permits required for the operation of abovementioned principal business (including the value-added telecommunications business operation Licence(s); referred to as the "Internet Content Provider Licence(s)" ("ICP Licence(s)")). Our WFOE, namely Nanjing Xibai, solely or jointly with Khorgos Xizhi ("Khorgos Xizhi Information Technology Company Limited", a WFOE established in China in June 2017) (Nanjing Xibai and Khorgos Xizhi are collectively referred to as "Contractual Control Entities"), entered into the Contractual Arrangement with our PRC Contractual Entities and the Relevant Shareholders (being the registered shareholders of our PRC Contractual Entities) in order to conduct the Principal Business in the PRC and to assert management control over the operations of, and enjoy all economic benefits of, each of our PRC Contractual Entities.

Pursuant to the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018) (外商投資准入特別管理措施(負面清單)(2018年)) promulgated by the National Development and Reform Commission and the MOFCOM on 30 June 2018, which took effect on 30 July 2018, foreign equity share in a value-added telecommunications business shall not exceed 50% (excluding e-commerce).

We are primarily engaged in operation of online platform focusing on the CBM market (the "Principal Business"), which is considered to be value-added telecommunications services, a sector where foreign investment is subject to significant restrictions under PRC laws and regulations. Accordingly, we cannot acquire equity interest in Nanjing Xihui and Nanjing Xinchuang (the "PRC Contractual Entities"), which hold certain licences and permits required for the operation of our Principal Business.

As a result, our Contractual Control Entities, entered into the Contractual Arrangement with our PRC Contractual Entities and the Relevant Shareholders (being the registered shareholders of our PRC Contractual Entities) in order to conduct the Principal Business in the PRC and to implement management control over the operations of, and enjoy all economic benefits of, each of our PRC Contractual Entities. Pursuant to the Contractual Arrangement, all substantial and material business decisions of the PRC Contractual Entities will be instructed and supervised by our Group, through the Contractual Control Entities, and all risks arising from the business of the PRC Contractual Entities are also effectively borne by the Contractual Control Entities.

1.3 Summary of the Major Terms of the Structured Contracts under the Contractual Arrangement

Business Cooperation Agreement

Nanjing Xibai entered into a business cooperation agreement with Nanjing Xinchuang, Nanjing Xihui and the Relevant Shareholders on 30 December 2014 (the "Business Cooperation Agreement"), which was renewed by the Contractual Control Entities and Nanjing Xinchuang, Nanjing Xihui and the Relevant Shareholders on 12 September 2017, and Nanjing Xibai entered into a business cooperation agreement with Hubei Xiyuan and the Relevant Shareholders on 29 October 2018, pursuant to which the Contractual Control Entities, our PRC Contractual Entities and the Relevant Shareholders agreed to enter into the Structured Contracts for the establishment of business cooperation among the parties and implementation of the Contractual Arrangement, and the Contractual Control Entities agreed to provide various services such as management consultancy, technology and software research and development, technical consultation, promotion planning and market promotion necessary for the operations of our PRC Contractual Entities and our PRC Contractual Entities agreed to pay service fees to the Contractual Control Entities according to the Structured Contracts.

The Business Cooperation Agreement provides, among others, that:

- each of our PRC Contractual Entities and the Relevant Shareholders has agreed, among others:
  - — to follow recommendations of the Contractual Control Entities on the day-to-day management of our PRC Contractual Entities;
  - — to cause persons recommended by the Contractual Control Entities to be elected as the board members or assume senior management positions of our PRC Contractual Entities; and
  - — any dividends and other distributions of our PRC Contractual Entities payable to the Relevant Shareholders, shall be unconditionally paid to the Contractual Control Entities.
- each of our PRC Contractual Entities and the Relevant Shareholders has undertaken not to, without the prior written consent of the Contractual Control Entities or its designated person(s), among others:
  - — engage in activities outside their normal business scopes or change their modes of business operation;
  - — incur any indebtedness over a certain threshold amount;

- remove or change the directors, supervisors or senior management of our PRC Contractual Entities or their subsidiaries;
- dispose of, transfer, lend, authorize the use of, or create any encumbrance over any material assets or rights of our PRC Contractual Entities or their subsidiaries to any third party other than the Contractual Control Entities or its designated person(s), or purchase any material assets or rights from any third party;
- dispose of any equity interest of our PRC Contractual Entities or their subsidiaries to any third party other than the Contractual Control Entities or its designated person(s), or alter their registered capitals or shareholding structures;
- alter the articles of association or business scope, or any important internal policies and rules of our PRC Contractual Entities or their subsidiaries;
- enter into any contract except those entered in the ordinary course of business;
- declare any dividend;
- conduct any activity which may adversely affect the ability of our PRC Contractual Entities or their subsidiaries to make payment to the Contractual Control Entities; and
- transfer any rights under the Business Cooperation Agreement or other underlying agreements to the Contractual Arrangement to, or enter into similar contractual arrangement with, any third party other than the Contractual Control Entities or its designated person(s).

The Business Operation Agreement became effective upon execution and shall, subject to the applicable PRC laws or regulations, be effective for an indefinite period unless (a) the Contractual Control Entities has acquired the entire equity interests or assets of our PRC Contractual Entities pursuant to its rights under the Exclusive Option Agreement; or (b) terminated unilaterally by the Contractual Control Entities by giving 30-day prior notice.

Exclusive Technology Service and Management Consultation Agreement

Nanjing Xibai entered into an exclusive technology service and management consultation agreement with Nanjing Xinchuang and Nanjing Xihui on 30 December 2014 (the "Exclusive Technology Service and Management Consultation Agreement"), which was renewed by the Contractual Control Entities and Nanjing Xinchuang, Nanjing Xihui and the Relevant Shareholders on 12 September 2017, and Nanjing Xibai entered into an exclusive technology service and management consultation agreement with Hubei Xiyuan and the Relevant Shareholders on 29 October 2018, pursuant to which our PRC Contractual Entities agreed to engage the Contractual Control Entities as their exclusive provider of technical and management consulting services and other technology and consultancy services requested by our PRC Contractual Entities to support their operations from time to time to the extent permitted under PRC laws in exchange for service fees.

The technical services provided include:

- development of computer and mobile device software;
- webpages and websites design, monitoring, testing and debugging;

— management of information systems;

— provision of technical supports;

— provision of technological consultation services;

— provision of technical training;

— engagement of technical staff to provide on-site technical guidance; and

— other technical services as reasonably requested by our PRC Contractual Entities.

The management consultation services provided include:

— formulation of management models and business plans;

— formulation of market development plans;

— provision of market information and customer resources information;

— market research and analysis;

— staff training;

— establishment of sales networks; and

— other services as reasonably requested by our PRC Contractual Entities.

The Exclusive Technology Service and Management Consultation Agreement also provides that the Contractual Control Entities has the exclusive proprietary rights to all intellectual property rights developed or created by the Contractual Control Entities or our PRC Contractual Entities during the performance of the Exclusive Technology Service and Management Consultation Agreement.

According to the Exclusive Technology Service and Management Consultation Agreement, our PRC Contractual Entities shall pay service fees to the Contractual Control Entities every six months as calculated by the Contractual Control Entities based on the financial conditions of our PRC Contractual Entities. In the premises of compliance with the PRC laws and regulations, the service fees are equal to the profits of our PRC Contractual Entities after deducting losses in previous years, necessary operating costs, expenses and taxes. The services fees are subject to the Contractual Control Entities's adjustment taking into account the actual situations of provision of services and our PRC Contractual Entities' operating status and development needs.

The Exclusive Technology Service and Management Consultation Agreement became effective upon execution and shall, subject to the applicable PRC laws or regulations, be effective for an indefinite period unless (a) the Contractual Control Entities's acquiring the entire equity interests or assets of our PRC Contractual Entities pursuant to its rights under the Exclusive Option Agreement; or (b) terminated unilaterally by the Contractual Control Entities by giving 30-day prior notice.

Shareholders' Rights Entrustment Agreement

Nanjing Xibai entered into a shareholders' rights entrustment agreement with our PRC Contractual Entities and the Relevant Shareholders on 30 December 2014 (the "Shareholders' Rights Entrustment Agreement"), and Nanjing Xibai entered into a shareholder's right entrustment agreement with Hubei Xiyuan and the Relevant Shareholders on 29 October 2018, pursuant to which the Relevant Shareholders irrevocably authorized Nanjing Xibai to exercise their shareholders' rights in our PRC Contractual Entities, including attending shareholders' meetings and exercising voting rights and dividend distribution rights. Nanjing Xibai is authorized to exercise any of the shareholders' rights without consulting or obtaining the consent of the Relevant Shareholders. Furthermore, Nanjing Xibai is entitled to authorize other individuals to exercise the shareholder's rights within the scope authorized by the Relevant Shareholders.

Pursuant to the Shareholders' Rights Entrustment Agreement, each of the Relevant Shareholders also entered into a power of attorney on the same date of the agreement (the "Powers of Attorney"). Pursuant to the Powers of Attorney, each of the Relevant Shareholders irrevocably appoints Nanjing Xibai or its designated persons to be appointed by it at its sole discretion to act as his/her/its exclusive attorney on his/her/its own behalf to exercise all rights in connection with matters concerning his/her/its rights as shareholder of our PRC Contractual Entities, including but not limited to:

— convening and attending shareholders' meetings of our PRC Contractual Entities, and exercising shareholder's voting rights with regard to all matters discussed and resolved during the shareholders' meetings;

— executing shareholders' meeting records, resolutions and other legal documents of our PRC Contractual Entities;

— directing the directors and legal representatives of our PRC Contractual Entities to act according to the intentions of Nanjing Xibai;

— exercising all other shareholders' rights under the constitutional documents of our PRC Contractual Entities;

— handling registration matters of our PRC Contractual Entities with the responsible registration authorities; and

— disposing and dealing with the equity interests of our PRC Contractual Entities held by the Relevant Shareholders.

The Shareholders' Rights Entrustment Agreement became effective upon execution and shall remain effective during the continuance of our PRC Contractual Entities. It shall be (a) automatically terminated upon Nanjing Xibai's acquiring the entire equity interests or assets of our PRC Contractual Entities pursuant to its rights under the Exclusive Option Agreement; or (b) terminated unilaterally by Nanjing Xibai by giving 30-day prior notice.

Equity Interest Pledge Agreement

Our PRC Contractual Entities, the Relevant Shareholders and Nanjing Xibai entered into equity interest pledge agreements on 30 December 2014 (the "Equity Interest Pledge Agreement"), and Hubei Xiyuan, the Relevant Shareholders and Nanjing Xibai entered into equity interest pledge agreements on 29 October 2018, pursuant to which the Relevant Shareholders granted a first priority of security interest in their respective interests in the registered capitals of our PRC Contractual Entities. Under the Equity Interest Pledge Agreement, the Relevant Shareholders agreed to pledge all their respective equity interests in our PRC Contractual Entities to Nanjing Xibai, as a security interest, to guarantee the performance of contractual obligations and the payment of outstanding debts of the Relevant Shareholders and our PRC Contractual Entities under the Business Cooperation Agreement, the Exclusive Technology Service and Management Consultation Agreement, the Shareholders' Rights Entrustment Agreement and the Exclusive Option Agreement.

The Equity Interest Pledge Agreement became effective after execution and shall remain valid until all the contractual obligations of the Relevant Shareholders and our PRC Contractual Entities under the Contractual Arrangement have been fully performed and all the outstanding debts of the Relevant Shareholders and our PRC Contractual Entities under the Contractual Arrangement have been fully paid. The Equity Interest Pledge Agreement shall also be terminated unilaterally by Nanjing Xibai by giving 30-day prior notice.

Exclusive Option Agreement

Our PRC Contractual Entities and the Relevant Shareholders entered into exclusive option agreement with Nanjing Xibai on 30 December 2014 (the "Exclusive Option Agreement"). Pursuant to the Exclusive Option Agreement, among others:

- The Relevant Shareholders irrevocably granted the exclusive right to Nanjing Xibai to require the Relevant Shareholders to transfer their equity interests in our PRC Contractual Entities to Nanjing Xibai, or such entities or individuals designated by Nanjing Xibai as and when permitted by the PRC laws for a nominal consideration of RMB1.00 or the lowest value permitted by law.

- Our PRC Contractual Entities irrevocably granted the exclusive right to Nanjing Xibai to acquire the assets in whole or in part from our PRC Contractual Entities, in its favour or in favour of such entities or individuals designated by Nanjing Xibai as and when permitted by the PRC laws for a nominal consideration of RMB1.00 or lowest value permitted by law.

- The rights may be exercised at any time within the effective period of the Exclusive Option Agreement. The Exclusive Option Agreement became effective upon execution and shall remain effective during the continuance of our PRC Contractual Entities. It shall be (a) automatically terminated upon acquiring by Nanjing Xibai or its designated entities the entire equity interests or assets of our PRC Contractual Entities pursuant to its rights under the Exclusive Option Agreement; or (b) terminated unilaterally by Nanjing Xibai by giving 30-day prior notice.

Spouse Undertakings

The spouse of each of the Relevant Shareholders has signed an undertaking on 30 December 2014 or on 29 October 2018 ("Spouse Undertakings"). Pursuant to the Spouse Undertakings, each of the spouses of the Relevant Shareholders irrevocably undertakes that:

(i) the spouse has been made fully aware of the Contractual Arrangement and consented that such Relevant Shareholder is the sole beneficiary of all the rights and interests and solely assumes obligations under the Contractual Arrangement;

(ii) all the equity interests held by such Relevant Shareholder in our PRC Contractual Entities shall be deemed as assets solely owned by such Relevant Shareholder, not mutual assets jointly owned by him/her and the related Relevant Shareholder, and the Relevant Shareholder shall be entitled to dispose of the equity interests in accordance with the Contractual Arrangement without his/her consent;

(iii) the spouse will not claim any interests or rights in the equities or assets of our PRC Contractual Entities; and

(iv) in the event that the spouse obtains any interests in our PRC Contractual Entities, he/she will be subject to and abide by the terms of the Contractual Arrangement as if he/she was a signing party to such Contractual Arrangement, and at the request of Nanjing Xibai, he/she will sign any documents in the form and substance consistent with the Contractual Arrangement.

2. Revenue and Assets in relation to the Contractual Arrangement

During the year ended 31 December 2018, revenue attributable to the PRC Contractual Entities (i.e. the Contractual Arrangement) was approximately RMB109.7 million. During the year ended 31 December 2018, the total asset and net asset attributable to the PRC Contractual Entities was approximately RMB328.2 million and RMB37.9 million respectively.

3. Risks Related to our Contractual Arrangement

Risks Related to our Contractual Arrangement

There is no assurance that the Contractual Arrangement with the PRC Contractual Entities will be deemed by the relevant governmental and judicial authorities to be in compliance with existing PRC laws and regulations or that it will be in compliance with future PRC laws and regulations, including but not limited to the new draft of the Foreign Investment Law (中華人民共和國外國投資法).

We believe that the Structured Contracts and such Contractual Arrangement with the PRC Contractual Entities does not infringe existing PRC laws and regulations or other mandatory requirements under PRC law. However, there can be no assurance that the Contractual Arrangement will be deemed by the relevant governmental or judicial authorities to be in compliance with the existing PRC laws and regulations or the relevant governmental or judicial authorities may in the future interpret the existing laws or regulations with the result that such Contractual Arrangement would be deemed to be in compliance of the PRC laws and regulations.

PRC regulations currently limit foreign ownership in PRC companies that provide value-added telecommunication services (excluding on-line data processing and transaction processing services, also called operating e-commerce), which include operating the Internet content platform, to 50%. In addition, foreigners and wholly-foreign owned enterprises are currently not eligible to apply for required licences for operating the Internet content platform in the PRC (excluding a limited number of sectors for wholly-foreign owned enterprises located in Shanghai Free Trade Zone). We are a limited liability company incorporated in the Cayman Islands and we conduct our operations mainly in the PRC through the Contractual Control Entities, our indirectly wholly-owned subsidiary. We and the Contractual Control Entities are foreigners and wholly-foreign owned enterprises under PRC laws and accordingly are ineligible to apply for the relevant licences to operate the Internet content platform. In order to comply with foreign ownership restrictions, our business in the PRC are mainly operated through the PRC Contractual Entities. As a result of the Contractual Arrangement, our Group is able to govern the financial and operating policies of the PRC Contractual Entities and to obtain substantially all economic benefits from the activities conducted by the PRC Contractual Entities. The rest of the economic benefits are retained by the PRC Contractual Entities as general working capital for their operation. Accordingly, the financial position and operating results of the PRC Contractual Entities are included in our Group's consolidated financial statements as if they are our Group's subsidiaries.

In addition, the MII Notice issued in July 2006 requires that ICP licence holders or their shareholders directly own the domain names and trademarks used by such ICP licence holders in their daily operations. The MII Notice further requires each ICP licence holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its licence. In addition, all the value-added telecommunication service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. The MII Notice prohibits ICP licence holders from leasing, transferring or selling its ICP licence to any foreign investors in any form, or providing any resource, sites or facilities to any foreign investors for their illegal operation of telecommunications business in the PRC. The MII Notice has imposed a more stringent regulatory environment on foreign investment in value-added telecommunication business, which introduces an increased risk of the Contractual Arrangement being challenged by the relevant PRC regulatory authorities. Therefore, we cannot rule out the possibility that the relevant PRC regulatory authorities may require that we unwind the Contractual Arrangement as a result of their increased attention on companies such as ours following the introduction of the MII Notice.

In addition, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. We are aware of a press articles which reported that a Supreme People's Court ruling in October 2012 and two arbitral decisions from SIETAC in 2010 and 2011 invalidated certain contractual agreements which were considered to be entered into with the intention of circumventing foreign investment restrictions in the PRC in contravention of the PRC Contract Law and the General Principles of the PRC Civil Law (民法通則). It has been further reported that these court ruling and arbitral decisions may increase (i) the possibility of the PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted businesses in the PRC and (ii) the incentive for shareholders of the PRC Contractual Entities under such contractual structures to renege on their contractual obligations.

Pursuant to Section 52 of the PRC Contract Law, a contract is void under any of the following circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and therefore 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 and administrative regulations. If the Contractual Arrangement with the PRC Contractual Entities and its equity holder are adjudicated to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- the nullification of the Contractual Arrangement;
- imposing economic penalties and/or confiscating the proceeds generated from the operation under the Contractual Arrangement;
- discontinuing or restricting operations of the Contractual Control Entities and/or Nanjing Xihui and/or Nanjing Xinchuang;
- imposing conditions or requirements with which the Contractual Control Entities and/or Nanjing Xihui and/or Nanjing Xinchuang may not be able to comply;
- requiring us to restructure the relevant ownership structure or operations;
- taking other regulatory or enforcement actions that could be harmful to our business; and
- revocation of business licences and/or the licences of the Contractual Control Entities and/or Nanjing Xihui and/or Nanjing Xinchuang.

Furthermore, in January 2015, the MOFCOM published the new draft of the Foreign Investment Law（中華人民共和國外國投資法）(the "Draft New Law") for public comment, which if finally adopted, will have significant impact on the foreign investment regime of the PRC. Specifically, the Draft New Law introduces a new standard in defining the nature of a domestic enterprise. An onshore enterprise will no longer be deemed as a foreign-invested enterprise even if its immediate shareholders involve foreign individuals or foreign entities, as long as such enterprise's ultimate control person(s) is/are solely PRC investors, upon the competent authorities' approval. The Draft New Law was accompanied by the MOFCOM's notes (the "Notes") on, among others, the background, guidelines and principle, and main content of the Draft New Law and elaboration on several issues including the treatment of existing contractual arrangement which has established before the effectiveness of the Draft New Law. As a number of legislative stages have to be undergone before promulgation and implementation, the new Foreign Investment Law (the "New Foreign Investment Law") has not be formally promulgated and implemented so far.

As advised by the Company's PRC Legal Advisers, as of the date of this annual report, the Draft New Law and the Notes are both drafts without any legal effect and have been released for the purpose of public consultation, and a number of legislative procedures have to be undergone before the promulgation and implementation of the new Foreign Investment Law. Given this, there is uncertainty as to the potential impact of the Draft New Law. Under the Notes, MOFCOM proposed three possible ways, namely the reporting, verification or approval regimes, to deal with existing contractual arrangements that has been established before the New Foreign Investment Law taking effect and operates restricted or prohibited foreign-entry areas of business. It is not certain which one of the three possible regimes will be finally adopted in the New Foreign Investment Law. Based on the Draft New Law, if the ultimate control person of the contractual arrangements is a PRC investor, depending on which regime is finally adopted, then by reporting to, verification or approval by MOFCOM, such contractual arrangements can continue to operate. Considering the abovementioned analysis and based on the facts that our Group is currently participating in a restricted industry category for foreign investment and Ms. Li Juan and Mr. Cheng Li, our Controlling Shareholders, are PRC investors as defined under the Draft New Law subject to the New Foreign Investment Law and relevant interpretations and regulations to be formally promulgated and implemented by MOFCOM in the future, if the Draft New Law and the Notes take effect in its current form and content, and the competent authorities interpret and implement the Draft New Law strictly in accordance with such forms and contents, the Contractual Arrangement will likely be permitted to continue, and the risk that our Group will be prohibited from retaining its Contractual Arrangement or the PRC Contractual Entities are prohibited from continuing their business operations is relatively low. On the premises, and subject to other amendments before its formal promulgation and implementation, the Draft New Law will have minimal impact on the Contractual Arrangement and the control over the PRC Contractual Entities by our Group and the operations of our Group as a whole. However, we cannot exclude the possibility that MOFCOM may have contrary or different interpretation of the Draft New Law and the Notes, and there may be amendments to the Draft New Law and the Notes before formal promulgation and implementation of the New Foreign Investment Law which may have material adverse impact on our Group at the time when the New Foreign Investment Law becomes effective. There is uncertainty as to whether our Group will be treated as domestic investment based on the New Foreign Investment Law. In the event our business is not regarded as being held by PRC investors and still belongs to the restricted or prohibited category under the New Foreign Investment Law or other future PRC laws and regulations including industry policies and regulations and practice of industry competent authorities, in the worst case scenario, we have to unwind the Contractual Arrangement and discontinue our business under contractual arrangements, which contributes substantially to our revenue. As a result, we may be forced to dispose of our principal business to comply with such regulatory requirements and our Company will not be sustainable.

Any of these actions and situations may have a material adverse effect on our business, financial condition and results of operations. In addition, if the imposition of any of these consequences causes us to lose the rights to direct the activities of the PRC Contractual Entities or our right to receive its economic benefits, we would no longer be able to consolidate the financial results of the PRC Contractual Entities.

Relevant Measures taken by the Company

As disclosed in the circular of the Company dated 8 November 2018, the Company proposed replacement of the Original VIE Undertaking given by Ms. Li Juan and Mr. Cheng Li to the Company, as disclosed on pages 187 and 188 of the prospectus of the Company, with the revised measures (the "Relevant Measures"). The Company has adopted and taken the following Relevant Measures upon the relevant resolution being passed by way of poll at the extraordinary general meeting convened by the Company on 26 November 2018:

(i) it will ensure that a majority of the Directors on the Board are PRC nationals, to the extent permitted by applicable laws, regulations and rules; and

(ii) if the Company receives any proposal either from the Board or the Shareholder(s) with no less than one-tenth of the voting right at general meetings of the Company to amend any of the PRC Nationals Control Clause, the Director Election/Appointment Clause and/or the Additional Directors Appointment Clause, it will make full disclosure of the potential risks associated with such proposal and the scenario which may arise from such amendment, including but not limited to delisting of the Shares from the Stock Exchange, in the circular to be dispatched to the Shareholders of the Company. A special resolution passed by the Shareholders is required to approve any proposal to amend any of the PRC Nationals Control Clause, the Director Election/Appointment Clause and/or the Additional Directors Appointment Clause.

The Controlling Shareholders' Undertakings

Furthermore, Loyal Alliance, Prime Wish and Victory Glory, who are the Controlling Shareholders of the Company, will jointly undertake to the Company and the Hong Kong Stock Exchange (the "Controlling Shareholders' Undertakings"), to the extent of all their shareholdings in the Company from time to time that:

(i) they will not, severally or jointly, propose any resolution to amend the PRC Nationals Control Clause, the Director Election/Appointment Clause and/or the Additional Directors Appointment Clause in the Company's constitutional documents at the general meeting of the Company; and

(ii) they will vote against any proposal to amend the PRC Nationals Control Clause, the Director Election/Appointment Clause and/or the Additional Directors Appointment Clause in the Company's constitutional documents at the general meeting of the Company.

Our PRC Legal Advisers are of the view that if the New Foreign Investment Law finally takes the form and content of the Draft New Law and the Notes, and the competent authorities interpret and implement the Draft New Law strictly in accordance with such form and content, the Contractual Arrangement will likely be permitted to continue, and the risk that our Group will be prohibited from sustaining its Contractual Arrangement or the PRC Contractual Entities will be prohibited from continuing their business operations is relatively low.

We rely on the PRC Contractual Entities to provide certain services that are critical to our business and the breach or termination of any of our service agreements with the PRC Contractual Entities or any failure of or significant quality deterioration in these services could materially adversely affect our business, financial condition and results of operations.

We rely on the PRC Contractual Entities to provide certain services to our customers that are critical to our business, such as the operation of our Platform. Since we only control the PRC Contractual Entities through the Contractual Arrangement, we face certain risks with respect to our arrangements with the PRC Contractual Entities and the performance of the arrangement by the PRC Contractual Entities. If the PRC Contractual Entities were to breach any of its obligations under the Contractual Arrangement, we may not be able to find a suitable alternative service provider or be able to establish and operate our platform in a legal or timely manner. The breach by the PRC Contractual Entities of any of the Contractual Arrangements could materially adversely affect our business, financial condition and results of operations.

We depend upon the Contractual Arrangement with the PRC Contractual Entities in conducting our operations and receiving payments through the PRC Contractual Entities, which may not be as effective in providing operational control as direct ownership.

We have no equity ownership interest in the share capital of the PRC Contractual Entities, and conduct substantially our operations, and generate substantially our revenues, through the Contractual Arrangement, which may not be as effective in providing us with control over the PRC Contractual Entities as if they were direct wholly-owned subsidiaries.

The Contractual Arrangement is governed by PRC laws and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. If any of the PRC Contractual Entities or any of the Relevant Shareholders fails to perform its obligations under the Contractual Arrangement, we may have to rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief, and claiming damages, which we cannot be sure would be effective. The legal environment in the PRC is not, however, as developed as in other jurisdictions. As a result, uncertainties in the PRC legal system could limit our ability to enforce such Contractual Arrangement.

In addition, any suits, arbitration or any other form of legal or dispute resolution proceedings against the Relevant Shareholders may require all assets held by such shareholders to be kept under court custody during the proceedings. If such were the case, there is no assurance that the equity interests held by such shareholders in the PRC Contractual Entities can be transferred to our Group in accordance with the Contractual Arrangement.

Certain terms of the Structured Contracts under the Contractual Arrangement may not be enforceable under PRC laws.

The Contractual Arrangement provides for dispute resolution by way of arbitration in accordance with the arbitration rules of SIETAC in Shanghai, the PRC. The Structured Contracts contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of our PRC Contractual Entities, injunctive relief and/or winding up of our PRC Contractual Entities. In addition, the Contractual Arrangement contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal or in other appropriate cases.

However, the abovementioned provisions contained in the Structured Contracts may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in the PRC Contractual Entities in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Contractual Arrangement.

The PRC laws allow an arbitral body to award the transfer of assets of, or an equity interest in, the PRC Contractual Entities in favour of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order against the PRC Contractual Entities as interim remedies to preserve the assets or shares in favour of any aggrieved party. Even though the Contractual Arrangement provides that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by courts in Hong Kong or the Cayman Islands in favour of an aggrieved party) may not be recognized or enforced by PRC courts. As a result, in the event that the PRC Contractual Entities or any of its shareholders breaches any of the Contractual Arrangement, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over the PRC Contractual Entities and conduct our business as well as our financial conditions and results of operations could be materially and adversely affected.

4. No Material Change

Save as disclosed above, as at the date of this annual report, there is no material change in the Contractual Arrangement and/or the circumstances under which they were adopted.

5. Unwinding of Contractual Arrangement

It is the intention of the Group to unwind the Contractual Arrangement when foreign investment in value-added telecommunication services is no longer restricted in the PRC.

However, as at the date of this report, there is no unwinding of any of the Contractual Arrangement or failure to unwind when the restrictions that led to the adoption of the Contractual Arrangement are removed.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Company during the Reporting Period are set out in note 33 to the financial statements. The Company confirms that such related party transactions does not fall under the definition of connected transaction or continuing connected transaction in Chapter 14A of the Listing Rules and Chapter 20 of the GEM Listing Rules (which were respectively applicable during the relevant periods after and prior to the Transfer of Listing) and therefore it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules and Chapter 20 of the GEM Listing Rules (which were respectively applicable during the relevant periods after and prior to the Transfer of Listing).

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS

The details of remuneration of Directors and senior management of the Company are set out in the notes 8 and 9 to the financial statements.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2018, pursuant to the Articles of Association, the Directors were indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they might incur in connection with the execution of their duty.

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 2018.

RISKS AND UNCERTAINTIES

Our Group believes that there are certain risks and uncertainties in our operations, some of which are beyond the Group's control, including:

(i) The Group is unable to guarantee that the Contractual Arrangement with the PRC Contractual Entities will be deemed by the relevant governmental and judicial authorities to be in compliance with existing PRC laws and regulations or that it will comply with future PRC laws and regulations, including but not limited to the new draft of the Foreign Investment Law of PRC (中華人民共和國外國投資法);

Our Directors have already formulated monitoring measures and examine the risk evaluation and report regularly, the details of which are set out in the Contractual Arrangement.

(ii) The revenue of the Group relies significantly on the marketing and promotional services provided and new businesses may not be successfully developed and introduced going forward.

Since the operational environment in the Internet industry has never-ending changes and improvements, we believe we should timely keep track of the industry, market and customer demands development to review our business strategies. We jointly make investigation and assessment with industry experts and partners in addition to monitoring the market and industry by ourselves.

We optimize our sales and promotion models constantly through innovation to satisfy the demand of existing customers and explore new customers at the same time.

The Group will develop diversified business actively to anticipate comprehensive income. We will continue to propel cross-border integration strategy and formulate project management system to explore high-quality and suitable cooperation projects.

Research and development of technology is our significant support in business development. We have management system in place for technological research and development, so as to facilitate effective business development through technology.

(iii) The Company's investment scale is expanding which results in the failure to carry out timely and effective management may affect realization of investment expectations.

The Company pays close attention to investment risks and has established an investment team to make recommendations on investment matters. Our financial department, legal advisers and technical team are responsible for the follow-up of post-investment management so as to continuously monitor the status of business development and financial risks of investees. The Company has established an investment management system to implement relevant risk management and internal control measures. The Company also obtains relevant professional experience and knowledge by consulting external experts.

DIRECTORS' REPORT

ENVIRONMENTAL POLICY AND PERFORMANCE

We keep on enhancing our operation in the environment, society and governance, corporate governance and risk management aspects to create and provide sustainable values for all stakeholders. In view of our business nature, we are not aware of any environmental laws and regulations that have material impact on the Group. However, the Group will continue to adopt measures in low-carbon works, green procurement and encourage environmental protection actions for the market and the society. Meanwhile, we encourage employees to be responsible for environment from their behaviors. During the Year, the Group performed its corporate citizen responsibility actively through rendering community services, organizing public welfare activities and made social donations. Meanwhile, we also encourage employees and more individuals to participate in public welfare activities. The details regarding the sustainable development of our market promotion, working environment, community and environment are set out in the section under the Environment, Social and Governance Report, which was reviewed by our Directors.

EMPLOYEES, MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the aggregate sales attributable to the Group's five largest customers accounted for 42% (2017: 49%) of the Group's total sales and the sales attributable to the Group's largest customer was approximately 10% (2017: 13%) of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers were approximately 61% (2017: 74%) of the Group's total purchases and the purchase attributable to the Group's largest supplier was approximately 16% (2017: 25%) of the Group's total purchases.

As far as the Directors are aware, none of the Directors or any of their associates or any Shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had beneficial interests in the Group's top five suppliers or customers referred to above.

The Group adopts people-oriented approach, provides employees with reasonable working rewards and continues to improve systems in salary and benefits, training, professional health and safety to retain talents. The Group maintains good relationship with customers and establishes channels for solving customers' problems and giving feedback to ensure the quality of service. The Group also maintains good relationship with suppliers and conducts fair and strict review about suppliers.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors as at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Main Board Listing Rules.

PROFESSIONAL TAX ADVICE

If the Shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

AUDITOR

On 30 November 2018, Ernst & Young ceased to act as the auditor of the Company and Baker Tilly Hong Kong Limited has been appointed as the auditor of the Company to fill the casual vacancy following the termination of Ernst & Young, and to hold office until the conclusion of the next annual general meeting of the Company. Save as disclosed above, the auditor of the Company remained unchanged over the past three years. The Board confirmed that there are no matters in respect of the change of auditor that need to be brought to the attention of the Shareholders. For details, please refer to the Company's announcement of change of auditor published on 30 November 2018.

The resolution on reappointment of Baker Tilly Hong Kong Limited as the auditor of the Company will be proposed by the Company at the 2018 AGM.

By the order of the Board
China Parenting Network Holdings Limited
Cheng Li
Executive Director and Chief Executive Officer

Hong Kong, 29 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORT FRAMEWORK AND SCOPE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Group was prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guide") set out in Appendix 27 of the Listing Rules and primarily reported on the performance of the Group in the area of environmental and social responsibilities in 2018.

Unless otherwise specified, this reporting period and the report scope covered includes all consolidated subsidiaries from 1 January 2018 to 31 December 2018. The report covers our businesses, namely (i) provision of marketing and promotional service; (ii) e-commerce business; and (iii) licensing of smart-hardware devices. Our principal places of operation are offices rented in Nanjing, China and Hong Kong, China.

Adhering to the corporate philosophy of "integrity, professional, dedication and persistence", the Group gives back to society in good faith and promotes the core parenting values focusing on health, happiness, self-confidence, effectiveness and convenience. The Group's efforts in fulfilling responsibilities to the environment and society form the cornerstone of its development strategy, operation and management in its pursuit of harmonious, long-term and sustainable development with society, environment and economy.

STAKEHOLDERS AND SIGNIFICANT ISSUES ASSESSMENT

We place great emphasis on the communication with stakeholders and their expectation regarding our environmental and social responsibilities. We have a wide range of channels in place to increase stakeholders' engagement in business strategy planning, including but not limited to on-going dialogues, conferences and training courses. Meanwhile, we will also maintain active and honest communication with stakeholders to meet with their expectations and requirements, for the purpose of effectively balancing the expectations, opinions and objectives of all parties and maximizing their long-term best interests.

- **Stakeholders**

Users/customers	User/customer events Protection and management of user/customer information Integrity and commercial practices
Shareholders/investors	General meetings Annual reports, financial reports and announcements Direct communication The Group's website Financial results Sustainable business development Investment and contribution to society Corporate transparency
Employees	Training courses Work-life balance Charity and community works Meetings and close communication Periodic performance review Career development planning Health and safety Remuneration and benefits Equal opportunity
Governments/ regulatory authorities	Direct communication Compliance management Conference Policy compliance Business development strategy Local regulations and actual practices Business ethics Public engagement
Suppliers	Site visits and evaluation Close communication Order/contract execution Corporate reputation Product quality Environmental responsibilities
Community	Promoting employment Volunteer activities Community investment and donation Contribution to society Environmental responsibilities

ENVIRONMENT

The Group values management of environment. It recognises the importance of sustainable environmental development to on-going business operation. In the course of business, it introduces the concept of environmental protection, complies with the requirements of local regulatory authorities and specific guidelines in the industry and is committed to the social responsibility of protecting environment as a corporate. Our environmental protection policies advocate low-carbon office, green procurement and promotion of environmental protection to the market and society. As the Group is an internet corporate, its operation has relatively small impact on the environment.

In 2018, to the best knowledge of the Group, there was no material non-compliance with relevant standards, rules and regulations.

- ### Carbon Dioxide Emissions

In 2018, we had no major connection with exhaust emissions, and no relevant laws and regulations had a significant impact on the Group should they need to be complied with.

The Group's main emission was carbon dioxide indirectly emitted from electricity consumption in the ordinary course of business and operating activities. Our direct power consumption mainly comes from offices and machine rooms in the properties where the Group's business operations are located. We calculated the data of carbon dioxide emissions indirectly produced according to the electricity bill provided by the properties. As reviewed by the Group, the carbon dioxide emissions of the Group during the Reporting Period were as follows:

Carbon dioxide emissions	Unit	China	Hong Kong	Total
Indirect emissions from electricity[1]	Metric tons of carbon dioxide equivalent	98.11	5.25	103.36
Density	Metric tons of carbon dioxide equivalent/m^2	0.07	0.03	Not applicable

Note:

(1) Data for Nanjing, China is calculated in accordance with the average CO2 emission factors of power grid in Jiangsu Province listed on the "Calculating Method and Data Form for CO2 Emission (《二氧化碳排放核算方法及數據核查表》)" published by Department of Climate Change of National Development and Reform Commission (中國發展和改革委員會應對氣候變化司). While data for Hong Kong, China is calculated in accordance with the emission ratio listed on the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong".

The Group will continue to monitor and reduce its carbon consumption and consider tracking its carbon footprint in a timely and more comprehensive manner.

In 2018, total indirect emissions from electricity consumption decreased by 17.44% as compared to 2017, which was mainly due to the adoption of energy-saving measures.

- **Resources Utilisation**

Due to the nature of our business, our operating process consumes less resources than other major industrial manufacturers. The main resource we consume is electricity. In 2018, the use of resources of the Group was as follows:

Energy	Unit	China	Hong Kong	Total
Purchased electricity	Thousands of kWh	130.85	6.64	137.49
Density	Thousands of kWh/m^2	0.09	0.03	Not applicable
Water consumption	Cubic meters	262	Not applicable[(1)]	Not applicable[(1)]
Printing paper	Metric tons	0.4	0.01	0.41
Packaging paper	Metric tons	16	0.05	16.05

Note:

(1) In Hong Kong, water supply services to offices are provided by building management. In this case, water consumption data is not available.

In 2018, total purchased electricity decreased by 17.44%, water consumption decreased by 17.09% and total printing and packaging paper increased by 7.16% as compared to 2017. The increase in total printing and packaging paper was due to an increase in relevant business volume.

- **Energy-saving and emission reduction measures**

The Group believes that reasonable utilisation of resources is an area of focus in its sustainable development. Enhancing energy efficiency in operation will not only help environmental conservation, but also reduce costs and boost operational efficiency in the long run. The Group proposes "low-carbon office" and enhances its management system constantly in many aspects including improving energy utilisation rate, saving water, electricity and energy as well as recycling wastes, and at the same time encourages employees to develop a "low-carbon habit". During the Reporting Period, we implemented the following major measures:

— ***Establishment of an energy-saving group***

The manager of our administration department was the head of the energy-saving group. We designated the person-in-charge of every business department as the responsible person of such business department for energy-saving. The energy-saving group reviewed the resources used on a quarterly basis in order to discuss and develop efficient energy-saving measures.

— ***Water consumption***

In 2018, our water was domestic water generated from offices in the properties where our business operations were located. Such water data was calculated mainly based on water bills provided by the properties. We posted water-saving notices in toilets as reminders. We strengthened our daily maintenance management of water equipment, repaired damaged water supply facilities in a timely manner and checked and replaced faucets and pipe valves regularly.

— ***Paper consumption***

With the co-operation of every department, we continuously increased online approvals for OA systems to reduce paper approvals.

We reduced colour printing configuration for several printers, and posted energy-conservation operating requirements such as black and white printing, double-side printing, recycle of used paper, and fully use of ink cartridges in printing area.

We have already reduced unnecessary printing and strictly control issuance of printing materials to avoid unnecessary wastage.

We strictly control the usage of courier bills, carton boxes and file envelopes required by post. We have cooperated with courier companies to improve courier bills handling by using single copy instead of multiple copies.

— ***Meetings and travels***

The Group avoided any non-necessary business travel.

The Group established no fleet, therefore there was no direct gasoline emissions. It also encouraged employees to use public transport for business trips and work.

Meetings for cross-regional communication are encouraged to be held by electronic means wherever feasible.

— ***Electricity-saving measures***

Through enhancing air tightness of wall and summer shading of windows, repairing air-conditioning system and cleaning pipeline network, energy consumption by air-conditioning operation was reduced.

Through altering part of office layout to enhance temperature control and the control of usage of time in air-conditioning areas, the efficiency of energy usage was improved.

Through applying innovative technologies to data center, the server usage efficiency was increased and the use of cabinets was reduced.

Energy-saving and environmental protection hardware equipment was procured and configured.

Automatic sleep mode was used for air conditioners and office equipment to reduce power consumption.

High-efficiency lamps and lamp reflectors were used and transparent covers were cleaned in a timely manner.

The electricity-saving labels were added, and non-necessary equipment was timely shutdown under patrol supervision.

— ***Employee training and activities***

The Group considered low-carbon and energy-saving as employees' performance evaluation standard and incorporated such areas into regular training to push its policy forward.

We conducted promotional campaigns for our employees on World Earth Day every year to raise low-carbon office awareness and public environmental protection awareness.

- **Wastes Treatment and Recycling**

  Owing to its business nature, the Group was not aware of any material hazardous wastes generated.

  Our total water discharge volume was 262 cubic meters (discharge water volume was treated as equivalent to office water consumption in calculation).

  Our wastes were mainly office wastes, domestic garbage in offices and packaging materials for courier services.

  Our recyclable wastes mainly included waste paper, waste cardboard and a small amount of materials used in office renovation. In 2018, a total of 330 kg of wastes were recycled. In 2018, recyclable wastes increased by 10% as compared to 2017, which was mainly due to an increase in relevant business volume.

  We have reduced waste generation and achieved effective waste recycling through the following measures:

  - Advocate garbage sorting and recycling. Our garbage was mainly divided into recyclable garbage, kitchen waste and other garbage.
  - Recycle and dispose of special waste, such as discarded computer equipment, print cartridges and ink cartridges, by print suppliers.
  - Reduce the use of disposable items such as paper cups and chopsticks.
  - Put up slogans to advocate food cherishing and kitchen waste reduction.
  - Advocate less consumption of office supplies and better use of public facilities.
  - Advocate waste recycling, such as making discarded items into creative decorations.

In 2018, our Directors considered that the Group's energy-saving measures were slightly refined and resources utilisation was overall slightly improved as compared with 2017. We will keep focusing on and improving such performance.

SOCIETY

- **Employment and Labour Practices**

  The Group upholds the philosophy of "people-oriented" by providing a desirable working environment to employees, safeguarding their health and safety and encouraging them to align personal growth with corporate development so as to facilitate the mutual development of employees and the Group. We strongly believe that talent is our most valuable asset and the cornerstone of our long term development.

  The Group continues to improve regulatory framework including Employee Manual, Human Resources Management System, Employees Performance Management System and Attendance Management System, which provide clear regulations for employment, dismissal, remuneration and welfare and performance evaluation. These systems are established and maintained in accordance with relevant laws, regulations and market practices. The Human Resources Department is responsible for the publicity and promotion of the rules and systems above to ensure that employees understand the corporate policies and their entitlement to equitable, fair and reasonable labour rights.

- **Remuneration and Benefits**

  Our remuneration policy is performance-oriented, and designed to reward well-performed and highly motivated employees. We have a well-established performance management system. While performance assessment for each employee is conducted quarterly by his/her supervisor, he/she shall also perform self-assessment or report his/her work as required. Performance target is set by employees together with their supervisors. Supervisors are encouraged to provide constructive feedback to every employee from time to time.

  During the Reporting Period, in order to further motivate staff members and teams to be innovative and encourage them to take challenges, the Company organised innovative project selection activities and set up innovation funds and target achievement awards.

  Our basic benefits system has been developed and maintained in accordance with relevant laws, regulations and market practice. Apart from this, the Company has established its staff club and organised sports events and leisure activities for its employees and provided funding support for the club activities. The Company organises thematic team-building activities, including annual sports events, annual travel, annual gala, quarterly departmental activities and ad hoc interesting thematic group activities, with an aim to develop team spirit. The Company celebrates employees' special moments with gifts, such as festive gifts, birthday gifts and length of service gifts.

- **Promotion**

  The Group organises talent selection, assessment, promotion and reserve procedures every year. Employees may apply for promotion during their interim and year-end performance assessments, provided that they satisfy the length of service and performance requirements. Depending on work service scope, the promotion is reviewed and considered by different internal committees. The promotion review process is fair and open and the promotion review is conducted in compliance with applicable laws and regulations.

- **Equal Opportunities and Diversity**

  The Group is committed to providing a fair and diversified workplace with no discrimination, and does not discriminate on the grounds of gender, ethnicity, race, disability, age, religious belief, sexual orientation or family status. Diversity is well supported in our corporate culture. Both male and female staff members of the Group share equal opportunities for employment and promotion. The Group also engages disabled employees as full-time or part-time employees and ensures that they have the same benefits with other employees.

  Our female employees who were pregnant and gave birth during their employment generally return after their maternity leave. Our female employees are entitled to a half-day holiday on International Women's Day.

As at 31 December 2018, the Group had a total of 181 employees, details of which are as follows:

Breakdown by types of employment
Fulltime: 95%
Internship: 5%

Breakdown by gender
Female: 60%
Male: 40%

Breakdown by age
30 and below: 73%
31-50: 27%
Over 51: 0%

- **Employee Resignation**

  We attach importance to the relationship with leaving employees and handle employees' resignation strictly in accordance with applicable laws and regulations.

- **Employee Communication**

  We are dedicated to establishing comprehensive communication channels for employees. Currently, official channels are in place for employees to voice their views and receive feedbacks. The Company conveys its corporate strategy, culture and corporate development situation to employees through releasing electric publications on a regular basis. We conduct employee satisfaction surveys with employees every year to collect their suggestions and opinions.

- **Health and Safety**

  The Group strives to maintain high occupational safety and health standards, and provides a safe workplace for its employees. The Group formulates policies related to health and safety and arranges health and safety training for all new employees to strengthen their health and safety awareness. As far as the Group is aware, there was no material non-compliance with relevant standards, rules and regulations in 2018.

In 2018, the Group adopted the following health and safety measures:

— Offered health and safety training for new employees;

— Maintained first-aid kits and conducted monthly checking on medicine stock and their expiry dates to ensure the medicine provided by the Group can fulfil employees' daily health and first-aid needs;

— Performed safety inspection on drinking facilities, air-conditioning and wiring, and carried out pest control and dust removal regularly and strengthened fire-fighting devices;

— Centralised the use of higher power electric household appliances and established standards for electrical safety for the employees;

— Made appropriate alterations to office area and added adequate living facilities in functional area and set up nursing room for breast feeding female employees as well as added more green plants;

— Promoted employees' awareness of travel safety and made appropriate adjustment of attendance under extreme weather conditions such as rainstorm and snowstorm, and enhanced sterilisation measures in office and provided suitable labour protection supplies for employees during epidemic period;

— Added air purification equipment in office;

— During the year, the Group created a fitness room in office area and set up a number of fitness equipment. At the same time, the Group established a yoga club and swimming club;

— The Group provided employees with employment and annual physical examination and purchased applicable commercial insurance related to health and safety for them.

During the year ended 31 December 2018, the Group did not encounter any major accident during operation.

• Life and Work Balance

The Company concerns about the lives of employees and encourages the balance between work and family. The Company organises a thematic event annually for employees who have children and continues to hold the "Back-to-school Day" event for employees who have children at school age so that they can enjoy paid leave and bring their children to school on the first school day. The Company encourages family members of employees to participate in the annual travel and team-building activities together.

• Development and Training

We have set up our own enterprise college "Orange College". Throughout the whole year of 2018, Orange College provided different training courses to employees at their different stages of career, including induction training, on-the-job training and leadership training. In addition, Orange College also set up an online learning platform and uploaded some courses in videos to allow employees to retrieve at anytime and anywhere. Human Resources Department also arranged voluntary training courses of not less than 2 hours each year for our ordinary employees.

Types of course training:	
Professional development skills	65%
Management skills and personal improvement	15%
Health, safety, etiquette, interest	5%
Corporate culture, systems and processes, legal knowledge, professional ethics	15%

- **Labour Standards**

  The Group has a comprehensive human resources policy in place regarding recruitment, dismissal, promotion, annual leave, training and benefits to support our work on manpower resources. During the reporting period, after the review by the board of Directors, the Group has complied with the Labour Law of the PRC (《中華人民共和國勞動法》), Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) and the employment regulations in relevant jurisdictions where it operates and we have signed a labour contract with employees in accordance with the laws. The Group has maintained strict compliance with the laws in relation to equal employment opportunities, prevention of child or forced labour in different regions. The Group has complied with the employment laws and regulations in relation to forced labour and all others that are relevant to working hours and rest periods.

- **Operating Practices**

  CI Web is a leading vertical online platform for the Children-Babies-Maternity market in the PRC, aiming at providing young families in the PRC with value-added services such as new media, content, community, smart hardware, e-commerce and cross-border services. The Group adheres to the principle that integrity comes first and conducts business according to the operating practices which are in compliance with local and international laws. Our employees are required to follow the code of conduct.

- **Supply Chain Management**

  In 2018, the Group had a total of 63 suppliers, of which six were Hong Kong suppliers and the rest were PRC suppliers. In 2018, a total of nine suppliers provided contract values of RMB1 million and above to the Group and all of them were independent third parties. During the year, the Group was not aware that these nine suppliers had any significant actual and potential negative impact on business ethics, environmental protection, human rights and labour practices or any incidents of non-compliance with human rights.

  The Group has established and implemented the procurement management system and supplier management system to maintain the integrity, fairness, safety, and premier quality of supply chain, while striving to increase the indirect economic benefits to be generated and positive impact on environmental protection, labour and safety. Our practices for engaging and managing suppliers include:

  — The Group generally carries out procurement through price comparison and sentinel procurement. In the selection of suppliers, we conduct screening and assessment based on their quality and prices. We also evaluate whether they have complied with our environmental, social and governance standards. We have provided relevant terms in existing contracts to facilitate our suppliers' understanding and compliance.

— Our suppliers must be responsible for their own operation of business and the Group conducts annual evaluation on the performance of suppliers. Apart from key standards including quality, costs and services, we also evaluate their compliance with our environmental, social and governance standards. We communicate with suppliers who do not get good results in our evaluation for correction or improvement. To ensure suppliers' capabilities in quality assurance, safety and other environmental management, we conduct on-site investigations on suppliers as and when required to ensure the safety of supply chain, and conduct regular on-site investigations on logistic suppliers and data center suppliers.

— We engage internal auditor and legal advisers to review suppliers' compliance and performance.

— We advocate establishing mutual trust between suppliers and us which will help us manage potential environmental and social risks and improve operation effectiveness. In 2018, we invited 1 technical service and server management supplier to conduct a satisfaction survey in order to review the performance of our procurement personnel in terms of integrity and fairness. We also learned from suppliers about their latest developments and their opinions in order to strengthen our cooperation, and we conveyed our business philosophy of sustainable development to them.

PRODUCT RESPONSIBILITY

The Group is committed to providing the best user experience. We attach great importance to the quality and reputation of its information services and products to fulfill our promises on service quality and truthfulness of information. We have protection and monitoring measures in place for user complaints, user services and establishment of intellectual property.

- **Customer Services and Complaints**

For the services and products provided by the Group, we have customer service channels to solve customers' problems and complaints to ensure they will usually be handled promptly. We ensure that complaints will be handled no later than 8 hours. We also have special personnel responsible for investigations and taking monitoring measures regarding the complaints. The Group also voluntarily accepts supervision of local government, market and quality control department as well as the public. During the year of 2018, to the best knowledge of the Group, there was no material non-compliance with relevant standards, rules and regulations.

For products in kind sold in the Group's e-commerce activities, except for the situation through special consultation with the after-sales department, users shall return the products that they do not want in original appearance and packing and obtain either refund in full or replacement within 5 working days. Certain products can be returned unconditionally within 15 days. Before delivery, we have dedicated personnel to carefully inspect and pack products to be delivered. If the return is not caused by our faults, the customer will be required to pay the delivery and return charges. If the product is defective due to quality, we will bear such two charges. Apart from refund, we also undertake the corresponding losses caused to users. During the year of 2018, to the best of our knowledge, there was no return product due to safety and health reasons.

- **Stability of Systems**

  To safeguard the successful operation of our business and provide customers with high-quality experience, the Company keeps on improving the operational stability of its products and platform server as well as its network infrastructure. The Company has formulated the System Security Maintenance System and Engine Room Security Review System to maintain its normal operation. It has also set up a disaster recovery mechanism accordingly to support data disaster recovery function and conduct drills and adopt emergency measures.

- **User Privacy**

  The Group pays attention to the protection of user's information and privacy in daily operation. On one hand, we continue to minimise the risk of leaking user's information through enhancing our security technology measures such as adopting the technology of storage encryption and controlling information access authority. On the other hand, we strictly incorporate and implement the regulatory requirements about privacy protection in our internal compliance processes. We follow the principles of legality, justification and necessity when collecting user information. To ensure that users understand how we protect their personal information and enhance the transparency of our data collection and processing, we published our privacy protection policy on respective product websites and applications of respective products. The main basis that formulated in accordance with compliance control has no material breach of the Regulations on Technological Measures for Internet Security Protection.

- **Intellectual Property**

  The Company emphasises the importance of intellectual property compliance and protection. Majority of our main intellectual property related to our operations is obtained from sources and we have a procurement process in place for intellectual property purchase. We formulate and implement the systems and procedures of declaration, registration, procurement, use and infringement monitoring of trademarks, patents, copyrights and domain names so as to safeguard our interests. We convey intellectual property protection and confidentiality awareness to our employees regularly and ensure their strict implementation. We also actively reduce the risk of our users infringing the intellectual property rights of others that may exist in the course of using our services through technical monitoring, manual review and market research. Given that we do not use or adopt any third party content to generate direct income, in the event of any litigation with respect to such area, our PRC legal advisor considers and our Directors concur that the risk of material adverse impact on the financial condition of the Company in relation to the claims from third party is low. The main basis that formulated in accordance with compliance control has no material breach of the Copyright Law of the PRC, Trademark Law of the PRC and Regulations on Protection of Information Network Transmission.

- **Supervision of Advertising Operation, Internet Information Services and Other Operating Activities**

  For our advertising operation, we have already applied for operator registration at the competent administration for industry and commerce. The Group has stringent management procedures in place for advertising design, production and publication. We also recruited an advertisement inspector who possesses the Ad Inspector Training Certificate issued by Jiangsu Advertisement Association. We also have the ICP licence necessary for conducting Internet communication services. The Group has technical monitoring and manual review process for Internet communication security, and at the same time, we appointed an Internet security officer who possesses the Internet Communication Security Manager Qualification Licence for Jiangsu Province issued by Jiangsu Provincial Public Security Department. The main basis that formulated in accordance with compliance control has no material breach of Advertising Law of the PRC and Measures for the Administration of Internet Information Services. We have obtained the business licence for radio and television programs production. In 2018, we were awarded the "Advanced Unit of Nanjing for Internet Network Civilization (南京市文明辦網先進單位)".

ANTI-CORRUPTION

In order to ensure honesty, loyalty and ethical behaviour of the employees, the Group has a code of ethics, anti-corruption management and whistleblowing system in place to monitor the conduct and behaviour of all employees, senior management and Directors in daily operation. The Group also performs annual self-review process to reflect the implementation of codes and regulations to ensure the codes and systems have been applied throughout the actual operation and management practices, so as to balance and safeguard the interests of the Group and the stakeholders and build up a long-term partnership. Furthermore, the Group engages an independent auditor to conduct external audit for the Group. Through internal monitoring and external audit, the Group prevents and controls corruption and unethical behaviours. The anti-corruption management and whistleblowing system provide channels and guidelines to report any misconduct, malpractice or illegal behaviour within the Group. The electronic reporting mailbox and a hotline have been established, so that our employees and other persons who deal with the Company (such as customers and suppliers) may report any misconduct that they have identified. The Company also asks its employees for relevant comments through annual surveys. All reports will be treated in a cautious and confidential manner. The Audit Committee will double check and review the complaints and conduct investigations and handle the comments and report to the board of Directors. Upon the completion of investigations, those employees found and proven to have committed corruption will be penalised or face immediate dismissal in accordance with the anti-corruption management requirements and corrective actions will be taken based on findings. Any corruption act that is in violation of any relevant laws or regulations will be reported to relevant government authorities. The Group has also developed and implemented whistleblowing protection system to ensure that all kinds of violations are reported openly and honestly without fear of retaliation or potential retaliation.

As far as the Group is aware, there was no material non-compliance with relevant standards, rules and regulations in 2018. Moreover, neither the Group nor its employees was involved in any litigation cases regarding corruption.

COMMUNITY INVESTMENT

The Group values harmonious and inclusive relationship between the Group and the community where it operates and maintains positive communication with the community and community partners. It regularly participates in conferences and investigations that are organised by the community and neighbourhood management department to ensure public welfare is considered by the Group during its business operation. The Group actively exercises its corporate social responsibility in various forms such as the provision of community services, organisation of public welfare activities and social donations. To establish long-term and effective community participation, we also take into account geographical factors, concerns of main stakeholders and synergy effects of our own resources. We formulate and implement the Public Welfare Project Management System which contains the approval process of public welfare projects organised by the Company and relevant requirements regarding security, compliance, transparency and effectiveness of project implementation. The Group treasures individual public welfare power and supports employees to participate in community volunteer activities and social public welfare affairs and integrates the resources of the Company to encourage more individuals to take part in those activities and affairs.

- **Labour Demand**

  The Group signed internship cooperation agreements with universities and colleges where we operate to help solve the internship and employment problems of local university and college students. In addition to providing healthy and safe internship environment for interns, we also arranged professionals within the Company to be their mentors in assisting them to conduct subject research and graduation project through practice. The Company was also invited by a university to provide professional topic lectures to their students.

- **Community Help**

The Group proactively fulfills its responsibilities as a corporate citizen. In the process of participating in charitable activities, the Group also attached importance to individual charity engagement. The Group supports employees to take part in social public welfare affairs and provides an organisational platform for more charity-caring people.

In 2015, the Group set up the charity platform "Nurture with Love (育見愛)", aiming to allow more individuals to participate in organising charitable activities. Our employees and charity-caring people initiated a number of charitable activities, including charity sales, visits to rural areas and fund-raising activities through such platform. We also displayed charitable achievements through such platform appropriately to encourage people to join us. Throughout the year of 2018, many charity-caring people mailed clothes to us through such platform. Our employees re-grouped those donations according to age and purpose upon receipt. These clothes were donated to impoverished regions or poor families in need after they made applications to us. We organised charity sales for fruit farmers in impoverished rural areas.

- **Education**

Since 2010, the Group has launched and constantly maintained its charity channel, JG Web, which is a platform for providing teaching and learning resources to handicapped children. On the first anniversary of its listing, the Group set up the Asia Children's Charity Foundation (亞洲兒童慈善基金會), which aims at offering medical, education and vocational skills to Chinese and Asian children in need.

- **Health**

In 2018, we participated in many charitable activities for premature infants and, taking advantage of mother-child platforms, joined force with the "Premature Babies Union", a civil society organization for premature infants, and industry players to take part in various charitable activities such as popular science education, auxiliary promotion and "Loving Care Lounge (愛心驛站)" to support vulnerable families with premature infants.

In 2018, our employees participated in community volunteer activities and public welfare activities through the charity platform "Nurture with Love (育見愛)" for a total time span of 720 hours.

In 2018, the CI Web was granted the "Chinese Mother and Infant Public Welfare Influence Media Award (中國母嬰公益影響力媒體獎)" by China National Committee For The Wellbeing Of The Youth, Child Development Center (中國關心下一代工作委員會兒童發展研究中心).

INDEPENDENT AUDITOR'S REPORT

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天職國際

To the shareholders of China Parenting Network Holdings Limited
中國育兒網絡控股有限公司
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Parenting Network Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 91 to 163, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

The key audit matters	How our audit addressed the key audit matters
Impairment assessment of interest-free loans to employees	
As at 31 December 2018, the interest-free loans due from employees amounted to RMB7,730,000. These loans are unsecured and repayable for a period within five years. The employees, including key management personnel (the "Eligible Employees"), who have been the full time employees for more than three years, and provided evidence to obtain the loan for the purchase of properties for self-use, are eligible to entitle the interest-free loans. The adoption of IFRS 9 has fundamentally changed the Group's accounting policy for loss impairment by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. The measurement of ECL requires the application of significant judgement which focused on the financial ability of the Eligible Employees and increased complexity which include the identification of increased exposures with a significant deterioration in credit quality, and assumptions used in the ECL models for credit-impaired exposures assessed individually, such as the expected future cash flows and forward-looking macroeconomic factors. Related disclosures of above assessment are included in notes 3, 15, 21 and 36 to the consolidated financial statements.	We assessed and tested the design and operation of the controls over initiating the interest-free loans and impairment assessment over the loan balances. We obtained the list of outstanding loan balances due from the Eligible Employees and checked the repayment records, the loan agreements and the calculation of the outstanding loan balances. We examined the repayment records and the repayments received subsequent to the end of the reporting period. We checked to the personnel records of the Eligible Employees. We assessed the reasonableness of the Group's ECL model and the criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis. We also assessed recoverability of the interest-free loans with reference to the sufficiency of collateral value, borrowers' interest repayment during the year and principal repayment subsequent to the year end date and up to the date of this report, and traced the repayments to the bank statements. We assessed the impact on the staff costs arising from the granting interest-free loans to the Eligible Employees. We assessed the adequacy of the disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

The key audit matters	How our audit addressed the key audit matters
Impairment assessment of trade receivables and contract assets	
As at 31 December 2018, trade receivable and contract assets were significant to the Group as they amounted to a total of RMB77,056,000 and represented 17% of the total assets of the Group. The collectability of trade receivables and contract assets is a key element of the Group's working capital management, which is implemented on an ongoing basis by management. In addition, the adoption of IFRS 9 has fundamentally changed the Group's accounting policy for loss impairment by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. The provision matrix measurement of ECL requires the application of significant management judgement. Management considers specific factors such as historical observed default rates, forecast economic conditions and the age of the balances. Management uses this information to calibrate the matrix to determine the amount of impairment. We focused on this area because it requires a high level of management judgement and the amounts involved are material. Related disclosures of above trade receivables and contract assets are included in notes 3, 19, 20 and 36 to the consolidated financial statements.	We assessed the Group's internal control over the initiating of credit terms and evaluating the recoverability of trade receivables and contract assets. We assessed the reasonableness of the Group's lifetime ECL provision matrix model which includes the inputs and assumptions used by the Group for calculating impairment loss and criteria for assessing if there has been a significant increase in credit risk. We checked the ageing of trade receivables and assessed significant trade receivables that were past overdue. We sent trade receivable confirmations, performed background research for major customers, checked historical payments and bank advices for the settlement of trade receivables subsequent to the year end on a sampling basis. We test checked the contracts with customers with marketing and promotional services schedules and recalculated to assess if the contract assets and revenue has been recognised over the schedule period. We assessed the adequacy of the disclosures of the trade receivables and contract assets and the related credit risk in the consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

The key audit matters	How our audit addressed the key audit matters
Fair value assessment of unlisted equity securities designated at fair value through other comprehensive income	
The Group had investments or made prepayment for the investment in ordinary shares of certain unlisted companies. After considering the Group's investment objectives and intentions, the Group classified these investments as equity securities designated at fair value through other comprehensive income ("FVOCI"). At the end of the reporting period, the Group assessed, by hiring an independent qualified appraiser (the "Appraiser") to assess the fair value of those equity securities and used market-observable data when possible, but where this is not feasible, a degree of judgement and estimation. As of 31 December 2018, unlisted equity securities amounted to RMB203,502,000, and prepayment for unlisted equity securities amounted to RMB58,690,000, representing 45% and 13%, respectively, of the total assets of the Group. The prepayment for unlisted equity securities was made in December 2018 to investees with changes of shareholders registration completed subsequent to the end of the reporting period. We focused on this area because it requires a high level of management judgement to determine the fair value of these unlisted equity securities and the amounts involved are material. Related disclosures are of above financial assets included in notes 3, 17, 35 and 36 to the consolidated financial statements.	We discussed with management and interviewed certain investees regarding the investment objectives and intentions, and checked the relevant agreements, ownership certificates and bank receipts for transfer of consideration. We assessed the reasonableness of management and the Appraiser's assumptions, valuation techniques and significant unobservable inputs used in calculating the fair value of unlisted equity securities. We obtained and reviewed the latest financial statements and business plans of the investees. We considered the recent performance of the investee, management's expectation on the investee's technical product milestones, and change in market economic environment. We interviewed with the investees to understand the latest status of the investment. We performed background research for the investees and the vendor. We assessed the adequacy of the disclosures on the unlisted equity securities designated at FVOCI in the consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

The key audit matters	How our audit addressed the key audit matters
Impairment assessment of loans to third parties	
As at 31 December 2018, loans to third party, bearing interest rates of 6.0% to 8.0% per annum for periods of 18 months to 36 months, amounted to RMB19,519,000, The borrowers comprise a variety of private entities in starting up stage. Included in the loans to third parties, there was RMB5,406,000 measured at amortised costs. Impairment assessment of this portion of loans to third parties requires significant management judgement. The adoption of IFRS 9 has changed the Group's accounting policy for loss impairment by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. The measurement of ECL requires the application of significant judgement and increased complexity which include the identification of increased exposures with a significant deterioration in credit quality, and assumptions used in the ECL models for credit-impaired exposures assessed individually, such as the expected future cash flows and forward-looking macroeconomic factors. Included in the loans to third parties, there was RMB14,113,000 designated at FVOCI. At the end of reporting period, the Group assessed, by hiring the Appraiser to assess the fair value of these loans and used market-observable data when possible, but where this is not feasible, a degree of judgement and estimation. We focused on this area because it requires a high level of management judgement to determine the fair value of these loans and the amounts involved are material. Related disclosures of above loans are included in notes 3, 15, 35 and 36 to the consolidated financial statements.	We gained an understanding of the Company's internal control over lending to third parties, and discussed with management regarding their objectives and intentions. We assessed the reasonableness of the Group's ECL model which included the inputs and assumptions used by the Group for calculating impairment loss and the criteria for assessing if there has been a significant increase in credit risk. We assessed the reasonableness of management and the Appraiser's assumptions, valuation techniques and significant unobservable inputs used in calculating the fair value of those loans to third parties designated at FVOCI. We assessed the Group's internal control over evaluating the recoverability of loans to third parties. We checked the relevant agreements and bank receipts for the loans advanced, sent direct confirmations to these borrowers, and performed background research about the borrowers. We obtained and reviewed the latest financial statements and business plans of the borrowers and interviewed with one of these borrowers to verify their financial position healthiness. We checked the guaranty agreement among the Group, the borrower and the third party guarantor, performed background research about the guarantor, reviewed the legal opinion about the legal enforceability of the guaranty agreement, sent confirmation to the guarantor, and interviewed with the guarantor.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

— 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.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 director on the audit resulting in this independent auditor's report is Gao Yajun.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 29 March 2019
Gao Yajun
Practising certificate number P06391

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	5	**109,713**	91,132
Cost of sales		**(31,672)**	(12,370)
Gross profit		**78,041**	78,762
Other income and gains	5	**8,251**	7,839
Other expenses		**(36)**	(1,811)
Administrative expenses		**(16,454)**	(14,648)
Selling and distribution expenses		**(22,474)**	(11,167)
Research and development costs		**(11,768)**	(16,899)
Finance costs	7	**(97)**	(68)
Profit before tax	6	**35,463**	42,008
Income tax expense	10	**(3,814)**	(4,061)
Profit for the year		**31,649**	37,947
Profit attributable to:			
Owners of the parent		**30,167**	34,584
Non-controlling interests	11	**1,482**	3,363
		31,649	37,947
		RMB cents	RMB cents
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted	13	**2.94**	3.37

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Profit for the year	**31,649**	37,947
Other comprehensive income/(loss), net of tax:		
Items that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**8,280**	–
Income tax effect	**(1,928)**	–
	6,352	–
Items that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**5,317**	(11,489)
Other comprehensive income/(loss) for the year, net of tax	**11,669**	(11,489)
Total comprehensive income for the year	**43,318**	26,458
Total comprehensive income for the year attributable to:		
Owners of the parent	**41,836**	23,095
Non-controlling interests	**1,482**	3,363
	43,318	26,458

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	14	**703**	556
Long-term receivables	15	**26,509**	33,129
Deposit for property, plant and equipment	16	**–**	60,101
Other financial assets	17	**262,192**	25,000
Deferred tax assets	27	**22**	–
		289,426	118,786
Current assets			
Inventories	18	**119**	123
Trade receivables	19	**22,495**	54,636
Contract assets	20	**54,561**	–
Prepayments, deposits and other receivables	21	**4,233**	3,434
Time deposits with original maturity over three months		**–**	23,000
Cash and cash equivalents	22	**86,251**	198,152
		167,659	279,345
Current liabilities			
Trade payables	23	**2,269**	463
Contract liabilities	24	**2,211**	–
Advances from customers	24	**–**	3,232
Other payables and accruals	25	**11,665**	11,373
Tax payable		**5,689**	3,763
Interest-bearing bank borrowings	26	**11,000**	–
		32,834	18,831
Net current assets		**134,825**	260,514
Total assets less current liabilities		**424,251**	379,300
Non-current liabilities			
Deferred tax liabilities	27	**2,269**	–
NET ASSETS		**421,982**	379,300

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Equity			
Equity attributable to owners of the parent			
Share capital	28	**8,090**	8,090
Reserves	30	**413,904**	372,704
		421,994	380,794
Non-controlling interests		**(12)**	(1,494)
TOTAL EQUITY		**421,982**	379,300

Approved and authorised for issue by the Board of Directors on 29 March 2019

Cheng Li
Director

Zhang Lake Mozi
Director

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital RMB'000	Treasury shares* RMB'000	Share premium* RMB'000	Reserve funds* RMB'000	Other reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Fair value reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	8,094	(4)	224,688	12,184	16,842	25,664	–	70,231	357,699	(4,857)	352,842
Profit for the year	–	–	–	–	–	–	–	34,584	34,584	3,363	37,947
Other comprehensive loss for the year:											
Exchange differences related to foreign operations	–	–	–	–	–	(11,489)	–	–	(11,489)	–	(11,489)
Total comprehensive income for the year	–	–	–	–	–	(11,489)	–	34,584	23,095	3,363	26,458
Cancellation of shares (note 28)	(4)	4	–	–	–	–	–	–	–	–	–
Appropriation to statutory reserves	–	–	–	3,992	–	–	–	(3,992)	–	–	–
At 31 December 2017	8,090	–	224,688	16,176	16,842	14,175	–	100,823	380,794	(1,494)	379,300
Effect of adoption of IFRS 9 (note 2.2(a))	–	–	–	–	–	–	1,014	(342)	672	–	672
At 1 January 2018 (restated)	**8,090**	**–**	**224,688**	**16,176**	**16,842**	**14,175**	**1,014**	**100,481**	**381,466**	**(1,494)**	**379,972**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**30,167**	**30,167**	**1,482**	**31,649**
Other comprehensive income for the year:											
Exchange differences related to foreign operation	**–**	**–**	**–**	**–**	**–**	**5,317**	**–**	**–**	**5,317**	**–**	**5,317**
Change in fair value of equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**6,352**	**–**	**6,352**	**–**	**6,352**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**5,317**	**6,352**	**30,167**	**41,836**	**1,482**	**43,318**
Dividend declared and paid in respect of previous year (note 12)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,308)**	**(1,308)**	**–**	**(1,308)**
Appropriation to statutory reserves	**–**	**–**	**–**	**3,014**	**–**	**–**	**–**	**(3,014)**	**–**	**–**	**–**
At 31 December 2018	**8,090**	**–**	**224,688**	**19,190**	**16,842**	**19,492**	**7,366**	**126,326**	**421,994**	**(12)**	**421,982**

* These reserve accounts comprise the consolidated reserves of RMB413,904,000 (2017: RMB372,704,000) in the consolidated statement of financial position.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Operating activities			
Profit before tax		**35,463**	42,008
Adjustments for:			
Depreciation	6	**371**	279
Finance costs	7	**97**	68
Impairment of trade receivables	6	**4**	10
Impairment of contract assets	6	**29**	–
Bank interest income	5	**(1,211)**	(848)
Other interest income	5	**(2,868)**	(1,200)
Other income		**–**	(326)
Staff cost arising from interest-free loans to employees		**1,401**	–
Loss on disposal of property, plant and equipment	6	**2**	–
Write-off of trade receivables		**(1)**	–
		33,287	39,991
Operating cash flows before working capital changes			
(Increase)/decrease in prepayments, deposits and other receivables		**(609)**	9,166
Increase in trade receivables		**(2,965)**	(12,756)
Increase in contract assets		**(19,544)**	–
(Increase)/decrease in long-term receivables		**(152)**	750
Decrease/(increase) in inventories		**4**	(107)
Increase in advances from customers		**–**	721
Decrease in contract liabilities		**(1,021)**	–
Increase/(decrease) in trade payables		**1,676**	(49)
Increase in other payables and accruals		**280**	194
Cash generated from operations		**10,956**	37,910
Income tax paid		**(1,850)**	(2,100)
Net cash generated from operating activities		**9,106**	35,810

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Investing activities			
Deposit for property, plant and equipment		**–**	(60,101)
Refund of deposit paid for property, plant and equipment		**60,101**	–
Purchases of items of property, plant and equipment	14	**(518)**	(65)
Loan to employees		**(3,500)**	(7,200)
Repayment of loan to employees		**9,420**	2,350
Proceeds from disposal of short-term investment		**–**	13,200
Loans to others		**(2,000)**	(20,015)
Repayment of loans to others		**5,078**	53,671
Prepayment for an available-for-sale investment		**–**	(10,000)
Prepayment for unlisted equity investment		**(58,727)**	–
Proceeds from disposal of an available-for-sale investment		**–**	10,701
Purchase of an available-for-sale investment		**–**	(15,000)
Purchases of unlisted equity investment		**(168,810)**	–
Interest received		**1,211**	848
Decrease/(increase) in time deposits with original maturity over three months		**23,000**	(23,000)
Net cash used in investing activities		**(134,745)**	(54,611)
Financing activities			
Dividend paid		**(1,308)**	–
Repayment of bank loans		**(2,000)**	(2,000)
Interest paid		**(97)**	(68)
New bank borrowings		**13,000**	–
Net cash generated from/(used in) financing activities		**9,595**	(2,068)
Net decrease in cash and cash equivalents		**(116,044)**	(20,869)
Cash and cash equivalents at beginning of the year	22	**198,152**	230,447
Effect of foreign exchanges rate changes, net		**4,143**	(11,426)
Cash and cash equivalents at end of the year	22	**86,251**	198,152

The accompanying notes are an integral part of the consolidated financial statements.

1 CORPORATE AND GROUP INFORMATION

China Parenting Network Holdings Limited (the "Company" or "CI web") was incorporated in the Cayman Islands on 13 October 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 July 2015 (the "Listing Date"). Upon approval by the Stock Exchange on 27 September 2018, the shares of the Company were listed on the Main Board on 8 October 2018 and delisted from the GEM since the last day of trading on 5 October 2018.

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in (i) the provision of marketing and promotional services through the Group's platform, including CI Web, mobile CI Web, Mobile Application Software ("APPs") and IPTV APPs; and (ii) e-commerce business in China. There has been no significant change in the Group's principal activities during the year.

In the opinion of the directors of the Company, as of the date of approval of these financial statements, Ms. Li Juan, Mr. Cheng Li, Mr. Wu Haiming, Loyal Alliance Management Limited, Prime Wish Holdings Limited and Victory Glory Holdings Limited are the Company's controlling shareholders.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation/ registration	Issued registered share capital	Equity interest held Direct	Equity interest held Indirect	Principal activities and place of operation
Directly held by the Company					
Shining World investments Limited ("Shining World") (note (vi))	British Virgin Islands/ 18 August 2014 ("BVI")	USD50,000	100%	–	Investment holding, BVI
Indirectly held by the Company					
Star Universal Holdings Limited	Hong Kong/ 5 September 2014	HKD10,000	–	100%	Investment holding, Hong Kong
Xibai (Nanjing) Information Technology Company Limited ("Nanjing Xibai") (note (i)(vii))	PRC/ 10 December 2014	HKD110,000,000	–	100%	Technical support and consultancy related services, the PRC
Nanjing Xinchuang Micro Electromechanical Technology Company Limited ("Nanjing Xinchuang") (note (i))	PRC/ 14 April 2005	RMB2,000,000	–	100%	Provision of marketing and promotional services and e-commerce business, the PRC
Nanjing Xihui Information Technology Company Limited ("Nanjing Xihui") (note (i))	PRC/ 24 May 2013	RMB5,000,000	–	100%	Provision of marketing and promotional services and technical support and consultancy related services, the PRC

1 CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration	Issued registered share capital	Equity interest held Direct	Equity interest held Indirect	Principal activities and place of operation
Indirectly held by the Company (continued)					
Nanjing Fuyuan Technology Company Limited ("Nanjing Fuyuan") (note (i)(ii))	PRC/ 30 March 2006	RMB3,000,000	–	66.7%	Provision of technical support and consultancy related services, the PRC
Nanjing Xile Information Technology Company Limited ("Nanjing Xile") (note (i)(iii))	PRC/ 6 March 2015	RMB100,000	–	51%	Provision of technical support and consultancy related services, the PRC
Nanjing Qianyi Animation Company Limited ("Nanjing Qianyi") (note (i)(iv)(vii))	PRC/ 31 January 2016	RMB1,000,000	–	– (2017: 60%)	Provision of cartoon design services and technical support and consultancy related services, the PRC
Khorgos Xizhi Information Technology Company Limited ("Khorgos Xizhi") (note (vii))	PRC/ 28 June 2017	HKD80,000,000	–	100%	Technical support and consultancy related services, the PRC
Hubei Xiyuan Information Technology Company Limited ("Hubei Xiyuan") (note (i)(v)(vii))	PRC/ 29 October 2018	RMB1,000,000	–	100% (2017: Nil)	Provision of marketing and promotional services and technical support and consultancy related services, the PRC

Note:

(i) The English names of companies incorporated in PRC referred to herein represent management's best effort at translating the Chinese names of these companies as no English name has been registered.

(ii) Nanjing Fuyuan was established in PRC and is held as to 66.7% by Nanjing Xinchuang, 20% by independent third party, 江蘇東南大學資產經營有限公司 and 13.3% by independent third party, 江蘇漢博教育培訓中心.

(iii) Nanjing Xile was established in the PRC and is held as to 51% by Nanjing Xibai and 49% by independent third party, Mr. Zhao Hongwei.

(iv) Nanjing Qianyi was established in the PRC and was held as to 60% by Nanjing Xile, 30% by independent third party, Shanghai Baiyi Animation Cultural Broadcasting Company Limited and 10% by independent third party, Guangzhou Baiyi Animation Technology Company Limited. On 24 December 2018, the Group has completed the deregistration of Nanjing Qianyi.

(v) Hubei Xiyuan was established in the PRC on 29 October 2018 and is wholly owned by Nanjing Xibai.

(vi) As at 31 December 2018, the Group has unpaid portion of registered capital totalling USD50,000 (equivalent to approximately RMB307,000) (2017: USD50,000 (equivalent to approximately RMB307,000)) for injection into Shining World.

(vii) As at 31 December 2018, the Group has unpaid portion of registered capital totalling RMB114 million for injection into Nanjing Xibai, Khorgos Xizhi and Hubei Xiyuan (2017: totalling RMB68 million for injection into Khorgos Xizhi and Nanjing Qianyi) which are due from 31 December 2020 to 31 December 2031.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) approved by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain long-term receivables and other financial assets which have been measured at fair value. These financial statements are presented in RMB, and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency Transactions and Advance Consideration

The nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 9 "Financial Instruments" ("IFRS 9")

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

Under the transition method chosen, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 Measurement					IFRS 9 Measurement	
	Category	Carrying amount at 31 December 2017 RMB'000	Re-classification under IFRS 15 (note 2.2 (b)) RMB'000	Re-classification under IFRS 9 RMB'000	Re-measurement under IFRS 9 RMB'000	Category	Carrying amount at 1 January 2018 RMB'000
Financial assets							
Long-term receivables							
— Loans to employees	AC	12,360	–	–	–	AC	12,360
— Loans to others (note (i))	AC	20,015	–	(12,000)	(342)	AC	7,673
— Loans to others (note (i))	–	–	–	12,000	2,647	FVOCI	14,647
Other financial assets							
— Equity investments designated at FVOCI (note (ii))	–	–	–	25,000	(1,295)	FVOCI	23,705
Trade receivables	L&R	54,636	(35,084)	–	(19)	AC	19,533
Contract assets	–	–	35,084	–	(38)	AC	35,046
Financial assets included in prepayments, deposits and other receivables	AC	2,898	–	–	–	AC	2,898
Time deposits with original maturity over three months	L&R	23,000	–	–	–	AC	23,000
Cash and cash equivalents	L&R	198,152	–	–	–	AC	198,152
		311,061	–	25,000	953		337,014

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) IFRS 9 "Financial Instruments" ("IFRS 9") (continued)

Classification and measurement (continued)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows: (continued)

	IAS 39 Measurement					IFRS 9 Measurement	
	Category	Carrying amount at 31 December 2017 RMB'000	Re-classification under IFRS 15 (note 2.2 (b)) RMB'000	Re-classification under IFRS 9 RMB'000	Re-measurement under IFRS 9 RMB'000	Category	Carrying amount at 1 January 2018 RMB'000
Other assets							
Property, plant and equipment	–	556	–	–	–	–	556
Long-term receivables							
— Rental deposit	–	754	–	–	–	–	754
Deposit for property, plant and equipment	–	60,101	–	–	–	–	60,101
Other financial assets							
— Available-for-sale investments (note (ii))	AFS	25,000	–	(25,000)	–	–	–
Inventories	–	123	–	–	–	–	123
Non-financial assets included in prepayments, deposits and other receivables	–	536	–	–	–	–	536
Deferred tax assets	–	–	–	–	14		14
		87,070	–	(25,000)	14		62,084
Total assets		398,131	–	–	967		399,098
Financial liabilities							
Trade payables	AC	463	–	–	–	AC	463
Financial liabilities included in other payables and accruals	AC	1,240	–	–	–	AC	1,240
		1,703	–	–	–		1,703
Other liabilities							
Contract liabilities	–	–	–	–	3,232	–	3,232
Advances from customers	–	3,232	–	–	(3,232)	–	–
Non-financial liabilities included in other payables and accruals	–	10,133	–	–	–	–	10,133
Tax payables	–	3,763	–	–	–	–	3,763
Deferred tax liabilities	–	–	–	–	295	–	295
		17,128	–	–	295		17,423
Total liabilities		18,831	–	–	295		19,126

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) IFRS 9 "Financial Instruments" ("IFRS 9") (continued)

Classification and measurement (continued)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows: (continued)

Abbreviations for category:
FVOCI: Financial assets at fair value through other comprehensive income
AFS: Available-for-sale investments
L&R: Loans and receivables
AC: Financial assets or financial liabilities at amortised cost

Note:

(i) The Group has reclassified certain of its loans to others previously measured at amortised costs under IAS 39 as debt instruments designated at fair value through other comprehensive income upon the adoption of IFRS 9 (see note 15(ii)).

(ii) The Group has elected the option to irrevocably designate certain of its previous available-for-sale investments as equity investments designated at fair value through other comprehensive income.

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in notes 19 and 20 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017 RMB'000	Remeasurement RMB'000	ECL allowance under IFRS 9 at 1 January 2018 RMB'000
Trade receivables	–	19	19
Contract assets	–	38	38
	–	57	57

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) IFRS 9 "Financial Instruments" ("IFRS 9") (continued)

Impact on reserves and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	RMB'000
Fair value reserve under IFRS 9	
Balance as at 31 December 2017 under IAS 39	–
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under IAS 39	(1,295)
Remeasurement of certain long-term receivables designated at fair value through other comprehensive income previously measured at amortised cost under IAS 39	2,647
Deferred tax in relation to the above	(338)
Balance as at 1 January 2018 under IFRS 9	1,014
Retained profits	
Balance as at 31 December 2017 under IAS 39	100,823
Remeasurement of certain loan-term receivables measured at amortised cost under IFRS 9	(342)
Recognition of ECLs for trade receivables under IFRS 9	(19)
Recognition of ECLs for contract assets under IFRS 9	(38)
Deferred tax in relation to the above	57
Balance as at 1 January 2018 under IFRS 9	100,481

(b) IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15")

IFRS 15 and its amendments replace IAS 11 "Construction Contract", IAS 18 "Revenue" and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates (note 3). As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") (continued)

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

The Group provides marketing and promotional services on its own website or APPs in the PRC. The majority of the online advertising contracts are entered into with a lump-sum consideration covering multiple deliverables of marketing and promotional services for a fixed period of time with no guaranteed minimum number of clicks. The lump-sum consideration for and timing of rendering each deliverable have been pre-agreed and evidenced by written contracts entered into between the Group and its customers. The consideration is allocated into each deliverable based on their relative stand-alone selling prices, and the related revenue is recognised over the period during which the service for the relevant deliverable is provided.

Before the adoption of IFRS 15, the Group recognise revenue for these service contracts over that were conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts, were included in trade receivables. Upon adoption of IFRS 15, the Group continues to recognise revenue for these service contracts over time, but these conditional receivables are reclassified to contract assets. Accordingly, the Group reclassified RMB35,084,000 from trade receivables to contract assets as at 1 January 2018.

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as advances from customers. Under IFRS 15, the amount is classified as contract liabilities.

Except for the consolidated statement of financial position, the adoption of IFRS 15 has had no impact on the consolidated statement of profit and loss, the consolidated statement of comprehensive income and the consolidated statement of cash flows. The amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15 are set out in note 2.2 (a).

(c) IFRIC 22 "Foreign Currency Transactions and Advance Consideration" ("IFRIC 22")

IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not effective, in these financial statements.

Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below: Of those standards, IFRS 16 and IFRIC 23 will be applicable for the Group's financial year ending 31 December 2019 and amendments to IAS 1 and IAS 8 will be applicable for the Group's financial year ending 31 December 2020 and are expected to have not a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (CONTINUED)

IFRS 16 "Leases" ("IFRS 16")

IFRS 16 replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases — Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of approximately RMB5,055,000 and lease liabilities of approximately RMB5,055,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

Amendments to IAS 1 and IAS 8

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

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (CONTINUED)

IFRIC 23 "Uncertainty over Income Tax Treatments" ("IFRIC 23")

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its certain long-term receivables designated at fair value through other comprehensive income and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

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

(a) the party is a person or a close member of that person's family and that person:

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

or

(b) the party is an entity is where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

A party is considered to be related to the Group if: (continued)

(b) the party is an entity is where any of the following conditions applies: (continued)

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment used are as follows:

Computers and servers	3–5 years
Office equipment	3–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income ("FVOCI"), it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at FVOCI, interest income, and foreign exchange revaluation are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at FVOCI when they meet the definition of equity under IAS 32 "Financial Instruments: Presentation" and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at FVOCI are not subject to impairment assessment.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other operating expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income and gains or other expenses, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and it is classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Group assesses at the end of the reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that a debtor 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables and accruals, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing bank and other borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit and loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

The Group derives its revenue from (i) the provision of marketing and promotional services of placing online advertisements such as banners, links and logos on its own website or APPs in Mainland China, and (ii) e-commerce business. Revenue reported in the financial statements is net of sales tax and related surcharges.

Provision of service

The majority of the online advertising contracts are entered into with a lump-sum consideration covering multiple deliverables of marketing and promotional services for a fixed period of time with no guaranteed minimum number of clicks. The lump-sum consideration for and timing of rendering each deliverable have been pre-agreed and evidenced by written contracts entered into between the Group and its customers. The consideration is allocated into each deliverable based on their best estimated selling price, and the related revenue is recognised over the period during which the service for the relevant deliverable is provided. Significant assumptions and estimates have been made in estimating the selling price of each unit of deliverable, and changes in judgements on these assumptions and estimates could materially impact the timing of advertising revenue recognition. In all contracts, there are no future obligations after the completion of the contract and no rights of refund related to the number of clicks. If collectability from the customers cannot be assessed as reasonably assured at the outset of the contracts, revenue is only recorded until cash is received from the customers.

Revenue from the provision of marketing and promotional services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

E-commerce business

E-commerce business comprises the net commission fee charged for sale of tickets of tourist, class, theme parks and etc. which are related to children, babies and maternity. Revenue is recognised when the tickets have been utilised by the customers.

Other income

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Other income (continued)

Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services (applicable before 1 January 2018)" below;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Contracts for services (applicable before 1 January 2018)

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract liabilities (applicable from 1 January 2018)

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

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

The functional currency of the Company is the Hong Kong dollar ("HKD") and certain subsidiaries incorporated outside Mainland China use the Hong Kong dollar ("HKD") as their functional currencies. The functional currency of the subsidiaries established in Mainland China is RMB. As the Group mainly operates in Mainland China, RMB is used as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the subsidiaries established outside Mainland China are currencies other than the RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity until the disposal of the respective foreign operation entity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the subsidiaries established outside Mainland China are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the companies established outside Mainland China which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, 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.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 19, 20 and 36 to the financial statements.

Provision for expected credit losses on loans to employees and others measured at amortised costs

The measurement of allowance of ECLs on loans to employees and others measured at amortised costs requires judgement and estimation on the amount and timing of future cash flows with, in particular, assessment of the collateral values and a significant increase in credit risk. During the judgement process, the allowance of ECLs on loans to employees and others measured at amortised costs is assessed on 12-month ECL basis as there has been no significant increase in credit risk since initial recognition unless there has been a significant increase in credit risk of the receivables, in which case the loss allowance is measured at an amount equal to lifetime ECL. In measuring whether the credit risk of receivables has increased significantly, the management has taken into accounts occurrence of default event and aging of overdue receivables with recurrent assessment of adjusted collateral values for the recovery and both the current and forecast general economic conditions.

The provision of ECLs is sensitive to changes in estimates. The information about the ECLs and the Group's loans to employees and others measured at amortised costs are disclosed in notes 15, 21 and 36. As at 31 December 2018, the carrying amount of loans to employees and others measured at amortised costs were RMB7,730,000 and RMB5,406,000, respectively.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Provision for expected credit losses on loans, trade and other receivables (applicable before 1 January 2018)

Before 1 January 2018, provision for impairment of deposits, loans, trade receivables and other receivables is made based on an assessment of the recoverability of loans, trade and other receivables. The identification of doubtful debts requires management's judgement and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, these differences will impact on the carrying value of the receivables, doubtful debt expenses and write-back in the period in which the estimate has been changed.

As at 31 December 2017, the carrying amounts of loans to third parties, trade receivables and interest-free loans to employees were RMB20,015,000, RMB54,636,000 and RMB13,650,000 respectively.

Determining best estimate of the selling price of each deliverable within the contracts

The Company established a standard price menu for each deliverable of its marketing and promotional services (i.e., full banner, banner, button, multi-flip and couplet) and discounts were always given by the Company. Price menu was set up based on historical experience, and was reviewed and updated annually. The Company has used the listed price on the price menu as a relative selling price of each deliverable to allocate the total consideration within the contracts. In making this estimate, the Group considers all the reasonably available information, including both market data and conditions and entity-specific factors, when estimating the selling price of each deliverable. The Group considers all the factors considered in the negotiation of arrangement with customer and its normal pricing practices are based on the most objective and reliable information that is available. The price menu is adjusted each year and accordingly the estimated selling price of each deliverable changes annually. Historically, there is no significant subsequent adjustment of the revenue amount due to a change in the estimated selling price because the listed prices of most of the deliverables are adjusted to a similar extent and the relative selling prices do not change significantly.

Estimates of income tax

Significant judgement 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 outcomes of these matters are different from the amount that was initially recorded, such differences will impact the current income tax and liabilities in the period in which such determination is made.

Fair value of unlisted equity investments and long term receivables designated as FVOCI

These financial assets have been valued based on valuation techniques including discounted cash flow model, marketing comparable model and Black Scholes Model as detailed in note 35 to the financial statements. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement and estimation is required in establishing fair values. The judgements include considerations of inputs such as discount rate, risk-free interest rate, volatility and probability. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

At 31 December 2018, the Group classifies unlisted equity investments of RMB262,192,000 (2017: Nil) and certain long-term receivables of RMB14,113,000 (2017: Nil) as Level 3.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Impairment of available-for-sale financial investments

Before 1 January 2018, the Group assessed at the end of each reporting period whether there was objective evidence that an investment or a group of investments is impaired. For listed equity investments, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. For unlisted equity investments, an impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of these unlisted equity investments that can be reliably estimated. Evidence of impairment may include indications that the investee is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. The measurement of the recoverable amount was a subjective area and management must assess the objective evidence of impairment and estimate the future cash flows of these equity investments.

4 OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of marketing and promotional services through the Group's platform and e-commerce business.

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

During the year, the Group operated within one geographical segment because nearly all of its revenue was generated in the Mainland China and all of its long-term assets/capital expenditure were located/incurred in the Mainland China. Accordingly, no geographical information is presented.

Information about major customers

Revenue of approximately RMB11,775,000 (2017: RMB11,550,000) was derived from provision of marketing and promotional services to a subsidiary of a listed media group listed on the New York Stock Exchange which accounted for more than 10% of the total revenue.

During the year ended 31 December 2017, revenue also included approximately RMB11,635,000 derived from provision of marketing and promotional services to entities under common control by a listed media group listed on the London Stock Exchange which accounted for more than 10% of the total revenue.

5 REVENUE, OTHER INCOME AND GAINS

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

	2018 RMB'000	2017 RMB'000
Revenue		
Marketing and promotional services	**108,155**	90,175
E-commerce	**1,558**	957
	109,713	91,132
Other income and gains		
Bank interest income	**1,211**	848
Other interest income	**2,868**	1,200
Foreign exchange gain, net	**–**	90
Government grants — related to expense (note)	**4,170**	5,375
Other income	**2**	326
	8,251	7,839

Note:

Government grants were received from the government of the Mainland China mainly to encourage the Group's efforts on development and innovation or as listing incentives. There are no unfulfilled conditions or contingencies relating to the grants.

6 PROFIT BEFORE TAX

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

	Note	2018 RMB'000	2017 RMB'000
Cost of inventories sold		**4**	44
Cost of services provided		**22,676**	6,288
Depreciation	14	**371**	279
Research and development costs:			
Current year expenditure		**11,768**	16,899
Minimum lease payments under operating leases		**2,460**	2,325
Auditor's remuneration		**1,700**	1,400
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**26,560**	27,992
Pension scheme contributions (defined contribution scheme)		**1,014**	1,350
Loss on disposal of items of property, plant and equipment		**2**	–
Foreign exchange differences, net		**351**	(90)
Impairment of trade receivables	19	**4**	10
Impairment of contract assets	20	**29**	–
Bank interest income	5	**(1,211)**	(848)
Other interest income	5	**(2,868)**	(1,200)
Government grants	5	**(4,170)**	(5,375)

7 FINANCE COSTS

Finance costs represent the interest-bearing bank borrowing of RMB97,000 (2017: RMB68,000).

8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018	2017
	RMB'000	RMB'000
Fees	**255**	261
Other emoluments:		
Salaries, allowances and benefits in kind	**1,531**	1,208
Pension scheme contributions	**154**	78
	1,685	1,286
	1,940	1,547

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018	2017
	RMB'000	RMB'000
Mr. Wu Chak Man	**85**	87
Mr. Zhao Zhen	**85**	87
Mr. Ge Ning	**85**	87
	255	261

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors

2018	Fees RMB'000	Salaries allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Cheng Li (note)	–	532	77	609
Mr. Zhang Lake Mozi	–	279	–	279
Mr. Hu Qingyang	–	336	77	413
Non-executive directors:				
Mr. Wu Haiming	–	384	–	384
Ms. Li Juan	–	–	–	–
Mr. Hsieh Kun Tse	–	–	–	–
	–	1,531	154	1,685

2017	Fees RMB'000	Salaries allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Cheng Li (note)	–	526	39	565
Mr. Zhang Lake Mozi	–	289	–	289
Mr. Hu Qingyang	–	393	39	432
Non-executive directors:				
Mr. Wu Haiming	–	–	–	–
Ms. Li Juan	–	–	–	–
Mr. Hsieh Kun Tse	–	–	–	–
	–	1,208	78	1,286

Note:

Mr. Cheng Li is also the chief executive officer.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2017: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**874**	1,372
Pension scheme contributions	**100**	117
	974	1,489

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2018	2017
Nil to HKD1,000,000	**2**	3

During the reporting period, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10 INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Under the relevant income tax law, the Mainland China subsidiaries are subject to income tax at a statutory rate of 25% on their respective taxable income, except for Nanjing Xibai, Nanjing Xile and Khorgos Xizhi.

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Enterprise Income Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries (《財政部、國家稅務總局關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》) promulgated by the State Council on 20 April 2012, if a corporate enterprise is recognised as a software enterprise, from tax filing at its first profitable year, the corporate enterprise can enjoy a preferential treatment (i.e., 2-year exemption and 3-year half payment). Nanjing Xibai and Nanjing Xile have been recognised as software enterprises since 27 May 2016 and filed in local tax bureau. Therefore, Nanjing Xibai would be exempted from income tax for their first two profitable years (i.e., 2015 and 2016) followed by a preferential income tax rate of 12.5% from 2017 to 2019. Nanjing Xile would be exempted from income tax for their first two profitable years (i.e., 2017 and 2018) followed by a preferential income tax rate of 12.5% from 2019 to 2021.

10 INCOME TAX (CONTINUED)

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Enterprise Income Tax Policies for Xinjiang Uygur Autonomous Region and Xinjiang Kashgar Autonomous Region (《財政部、國家稅務總局關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知》) promulgated by the State Council on 29 November 2011, if a corporate enterprise is newly established within calendar years 2010 to 2020 in two specific regions with business fallen in the scope of the Catalogue of Preferred Enterprise Income Tax for Key Encouraged Industries in Poor Areas of Xinjiang (《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》), the corporate enterprise can enjoy a preferential treatment (i.e., 5-year exemption) from the first year when the entity begins to generate revenue. Khorgos Xizhi is exempted from income tax from calendar years 2017 to 2020 upon an approval by the State Taxation Bureau of the Xinjiang Uygur Autonomous Region in October 2017.

The income tax expenses of the Group for the year are analysed as follows:

	2018 RMB'000	2017 RMB'000
Current tax — Mainland China		
Provision for the year	**3,744**	4,061
Under-provision in respect of prior years	**32**	–
	3,776	4,061
Deferred tax		
Origination of temporary differences (note 27(a))	**38**	–
Total tax charge for the year	**3,814**	4,061

10 INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the locations in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rates and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rates are as follows:

	2018 RMB'000	2018 %	2017 RMB'000	2017 %
Profit before tax	**35,463**		42,008	
Tax calculated at the Mainland China statutory tax rate of 25%	**8,866**	**25**	10,502	25
Lower tax rates for specific provinces or enacted by local authority	**(3,672)**	**(10)**	(4,627)	(11)
Tax loss not recognised	**152**	**1**	–	–
Tax loss utilised from previous periods	**(234)**	**(1)**	(152)	(1)
Income not taxable for tax	**(1,409)**	**(4)**	(1,662)	(3)
Expenses not deductible for tax	**79**	**–**	–	–
Under provision in respect of prior years	**32**	**–**	–	–
Tax charge at the Group's effective tax rate	**3,814**	**11**	4,061	10

The effective tax rate of the Group was 11% in 2018 (2017: 10%).

11 PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that have material non-controlling interests are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interests:		
Nanjing Xile	**49%**	49%

	2018 RMB'000	2017 RMB'000
Profit for the year allocated to non-controlling interests:		
Nanjing Xile	**1,535**	3,365
Accumulated balances of non-controlling interests at the reporting date:		
Nanjing Xile	**114**	(1,421)

11 PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

2018	**Nanjing Xile RMB'000**
Revenue	**4,858**
Total expense	**1,726**
Profit for the year	**3,132**
Total comprehensive income for the year	**3,132**
Current assets	**2,550**
Non-current assets	**196**
Current liabilities	**2,413**
Net cash flows from operating activities	**1,044**
Net increase in cash and cash equivalents	**1,044**

2017	Nanjing Xile RMB'000
Revenue	12,264
Total expense	5,396
Profit for the year	6,868
Total comprehensive income for the year	6,868
Current assets	1,799
Non-current assets	1,960
Current liabilities	6,557
Net cash flows from operating activities	1,421
Net increase in cash and cash equivalents	1,421

12 DIVIDENDS

	2018 RMB'000	2017 RMB'000
Final dividend declared and paid in respect of the year ended 31 December 2017 (HKD0.0015 (2017: Nil) per ordinary share)	**1,308**	–

As mentioned in the announcement of the Company dated 2 April 2018, a final dividend of HKD0.0015 per ordinary share in respect of the year ended 31 December 2017, totalling HKD1,538,493 (equivalent to approximately RMB1,308,000) was declared and paid during the current year.

13 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent, and the weighted average numbers of ordinary shares of 1,025,662,000 (2017: 1,025,684,000) in issue during the year.

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017, and therefore the diluted earnings per share amount is equivalent to the basic earnings per share.

The calculations of basic and diluted earnings per share are based on:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**30,167**	34,584

	Number of shares	
	2018	2017 (Restated)
Shares		
Weighted average number of ordinary shares in issue	**1,025,662,000**	1,025,684,000

	2018 RMB cents	2017 RMB cents
Earnings per share attributable to ordinary equity holders of the parent		
— Basic and diluted	**2.94**	3.37

14 PROPERTY, PLANT AND EQUIPMENT

	Office equipment RMB'000	Computers and servers RMB'000	Total RMB'000
31 December 2018			
As at 1 January 2018:			
Cost	**381**	**3,272**	**3,653**
Accumulated depreciation	**(351)**	**(2,746)**	**(3,097)**
Net carrying amount	**30**	**526**	**556**
At 1 January 2018, net of accumulated depreciation	**30**	**526**	**556**
Additions	**–**	**518**	**518**
Disposals	**(2)**	**–**	**(2)**
Depreciation provided during the year (note 6)	**(8)**	**(363)**	**(371)**
Exchange realignment	**–**	**2**	**2**
At 31 December 2018, net of accumulated depreciation	**20**	**683**	**703**
At 31 December 2018:			
Cost	**331**	**3,805**	**4,136**
Accumulated depreciation	**(311)**	**(3,122)**	**(3,433)**
Net carrying amount	**20**	**683**	**703**
31 December 2017			
As at 1 January 2017:			
Cost	381	3,207	3,588
Accumulated depreciation	(317)	(2,487)	(2,804)
Net carrying amount	64	720	784
At 1 January 2017, net of accumulated depreciation	64	720	784
Additions	–	65	65
Depreciation provided during the year (note 6)	(30)	(249)	(279)
Exchange realignment	(4)	(10)	(14)
At 31 December 2017, net of accumulated depreciation	30	526	556
At 31 December 2017:			
Cost	381	3,272	3,653
Accumulated depreciation	(351)	(2,746)	(3,097)
Net carrying amount	30	526	556

15 LONG-TERM RECEIVABLES

	2018 RMB'000	2017 RMB'000
Rental deposits	**944**	754
Loans to employees (note (i))	**6,046**	12,360
Loans to others (note (ii))	**19,519**	20,015
	26,509	33,129

Note:

(i) Since September 2016, the Group had begun to offer certain employees interest-free loans which amounted to no more than RMB15.0 million in aggregate. The employees, including key management personnel, who have served the Group for more than three years can apply for such interest-free loans to purchase home properties. The balance, including interest-free loans to key management personnel of RMB1,847,000 (2017: RMB7,350,000), represents the interest-free loans to employees which will be repaid within two to five years. The current portion which will be repaid within one year is presented in note 21.

(ii) As at 31 December 2018, included in the balances was a loan measured at fair value of RMB14,113,000 (2017: at amortised cost of RMB12,000,000), made to a private company, Nanjing Qianyu Information Technology Company Limited ("南京千魚信息技術有限公司") ("Nanjing Qianyu"), at interest rate of 6.0% per annum for a period of 36 months. The directors of the Company are of the opinion that this loan facility agreement is for the long-term interest of the Group. In future, by evaluating the performance of Nanjing Qianyu over a period, the Group has the option to invest in shares of Nanjing Qianyu in priority. Therefore, this loan classified as loans and receivables and measured at amortised cost prior to 1 January 2018 is reclassified as financial assets at FVOCI upon the adoption of IFRS 9 on 1 January 2018 (see note 2.2(a)). The loan was guaranteed by a subsidiary, Jiangsu Wansheng Weiye Network Technology Company Limited ("江蘇萬聖偉業網絡科技有限公司") of an A share company.

The balance as at 31 December 2018 also included loans with interest of RMB4,349,000 (2017: RMB2,000,000) and RMB1,057,000 (2017: RMB1,000,000) extended to two third parties, Beijing Hongwei Technology Company Limited ("北京宏偉科技有限公司") and Shenzhen Feishikang Technology Company Limited ("深圳飛視康科技有限公司"), respectively, bearing interest rates of 6.0% to 8.0% per annum for periods of 18 to 36 months.

The balance as at 31 December 2017 included a loan extended to a third party, Yueyi Group ("悦益集團有限公司"), amounting to HKD6,000,000 with annual interest of 6% for period of 36 months which was early repaid on 2 March 2018 and the interest was waived.

16 DEPOSIT FOR PROPERTY, PLANT AND EQUIPMENT

	2018 RMB'000	2017 RMB'000
Deposit for acquisition of property, plant and equipment	**–**	60,101

On 15 December 2017, the Group entered into a Commodity Property Purchase Agreement ("Preliminary Agreement") with an independent property developer ("the Vendor") , Nanjing Shimao New Development Property Company Limited ("南京世茂新發展置業有限公司") for the acquisition of certain commodity properties at a consideration of RMB60,101,000. In accordance with the Preliminary Agreement, a pre-sale contract will be entered into between the Group and the Vendor before 31 December 2017, the Vendor was expected to deliver the ownership of properties to the Group on 30 June 2019 and if the Vendor was not able to obtain the permit for pre-sale before 31 December 2017, the Preliminary Agreement will expire automatically.

As the Vendor failed to obtain the permit for pre-sale, the Group announced to terminate the acquisition of the commodity properties with the Vendor on 27 March 2018 and the deposit of RMB60,101,000 was refunded to the Group on 28 March 2018.

17 OTHER FINANCIAL ASSETS

	Note	**2018 RMB'000**	2017 RMB'000
Equity investments designated at FVOCI			
Unlisted equity securities	(i), (ii)	**203,502**	–
Prepayment for unlisted equity securities	(ii), (iii)	**58,690**	–
		262,192	–
Available-for-sale investments			
An unlisted equity security	(iv)	**–**	15,000
Prepayment for an unlisted equity security	(iii), (iv)	**–**	10,000
		–	25,000
Total other financial assets		**262,192**	25,000

Upon the initial application of IFRS 9 at 1 January 2018 (see note 2.2(a)), the above unlisted equity securities and the relevant prepayment were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature. No dividends were received on these equity securities during the year (2017: Nil).

(i) The balances include RMB114,052,000 of unlisted equity securities with derivative embedded which represents the Company's options to request for investees to repurchase the equity shares in certain situations including the investees' failure in meeting specific profits guarantee or developing specific techniques, fundamental change in investees' principal activities and/or investees and original shareholders violated integrity and damaged the investees' interests.

(ii) The fair value of unlisted equity securities and prepayment for unlisted equity securities were measured at the end of the reporting period by an independent qualified appraiser, Messer. 沃克森(北京)國際資產評估有限公司 (the "Appraiser"). Further details on the Group's fair value measurement are set out in note 35.

(iii) As at 31 December 2018 and 2017, the prepayment for unlisted equity securities were made in December 2018 and November 2017, respectively, with changes of shareholders registration completed subsequent to the end of the reporting period.

(iv) As at 31 December 2017, an unlisted equity security and prepayment for an unlisted equity security were stated at cost less impairment because the range of reasonable fair value estimates was so significant that the directors were of the opinion that its fair value could not be measured reliably. The Group did not intend to dispose of them in the near future.

18 INVENTORIES

	2018 RMB'000	2017 RMB'000
Finished goods	**119**	123

19 TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**22,517**	54,636
Impairment	**(22)**	–
	22,495	54,636

The Group's trading terms with its customers are mainly on credit. The credit period is generally 90 to 180 days after date of invoices, depending on contracts with individual customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to customers with a good track record, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the date of invoices (2017: date of services rendered) and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	**12,099**	46,249
3 to 6 months	**4,628**	4,818
6 months to 1 year	**1,941**	3,183
1 to 2 years	**3,687**	230
2 to 3 years	**140**	156
	22,495	54,636

19 TRADE RECEIVABLES (CONTINUED)

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

	2018 RMB'000	2017 RMB'000
At 1 January	–	–
Effect of adoption of IFRS 9	19	–
At 1 January (restated)	19	–
Impairment losses recognised (note 6)	4	10
Amount written off as uncollectible	(1)	(10)
At 31 December	22	–

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Expected credit loss rate %	Gross carrying amount RMB'000	Expected credit loss RMB'000	Net carrying amount RMB'000
Current (not past due)	0.1%	16,743	(16)	16,727
Within six months past due	0.1%	1,943	(2)	1,941
More than six months past due	0.1%	3,831	(4)	3,827
		22,517	(22)	22,495

19 TRADE RECEIVABLES (CONTINUED)

Impairment under IAS 39 for the year ended 31 December 2017

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	51,067
Within six months past due	3,183
More than six months past due	386
	54,636

Receivables that were neither past due nor impaired related to customers with a good track record for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

Further details on the Group's credit policy are set out in note 36.

20 CONTRACT ASSETS

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract assets arising from marketing and promotional services	**54,628**	35,084	–
Impairment	**(67)**	(38)	–
	54,561	35,046	–

Contract assets are initially recognised for revenue earned from the marketing and promotional services as the receipt of consideration is conditional on successful completion of services. Included in contract assets for marketing and promotional services are retention receivables. Upon completion of services and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in the provision of marketing and promotional services at the end of the year.

20 CONTRACT ASSETS (CONTINUED)

During the year ended 31 December 2018, RMB29,000 was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 36 to the financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	RMB'000
Within one year	54,561

The movements in the loss allowance for impairment of contract assets are as follows:

	RMB'000
At 1 January 2018	–
Effect of adoption of IFRS 9	38
At 1 January 2018 (restated)	38
Impairment losses (note 6)	29
At 31 December 2018	67

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates for the measurement of the ECLs of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

As at 31 December 2018

Expected credit loss rate	0.12%

	RMB'000
Gross carrying amount	**54,628**
Expected credit losses	**67**

21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepaid expenses	**1,222**	299
Employee advances	**661**	781
Deposits	**29**	9
Other receivables	**637**	1,055
Current portion of loans to employees (note 15(i))	**1,684**	1,290
	4,233	3,434

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22 CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash and cash balances	**86,251**	198,152

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB13,126,000 (2017: RMB27,731,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23 TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within three months	**2,269**	463

The trade payables are non-interest-bearing and are normally settled within terms of 30 to 120 days.

24 CONTRACT LIABILITIES/ADVANCES FROM CUSTOMERS

	2018 RMB'000	2017 RMB'000
Short-term advances received from customers		
— Marketing and promotional services classified as:		
Contract liabilities	**2,211**	–
Advances from customers	**–**	3,232

Upon the adoption of IFRS 15 on 1 January 2018, these amounts were reclassified from advances from customers to contract liabilities.

Contract liabilities include short-term advances received to deliver marketing and promotional services. There is no significant change in contract liabilities in 2018.

Advances from customers are non-interest-bearing and are normally recognised in the statement of profit or loss within 90 days.

25 OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Other payables	**1,321**	1,240
Accruals	**13**	1,955
Other tax payables	**6,098**	4,950
Employee related payables	**4,233**	3,228
	11,665	11,373

Other payables are non-interest-bearing and repayable on demand.

26 INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans unsecured	**4.35%**	**2019**	**11,000**	–	–	–

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans:		
Within one year or on demand	**11,000**	–

The Group's bank facilities amounted to RMB11,000,000, all of which had been utilised as at 31 December 2018 and will be settled within one year.

27 DEFERRED TAX

(a) Deferred tax assets/(liabilities) recognised

The component of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value adjustment on unlisted equity securities RMB'000	**Fair value adjustment on loans receivables** RMB'000	**Impairment of trade receivables** RMB'000	**Impairment of contract assets** RMB'000	**Total** RMB'000
At 1 January 2017 and 31 December 2017	–	–	–	–	–
Effect of adoption of IFRS 9	324	(619)	–	–	(295)
Effect of adoption of IFRS 15	–	–	9	5	14
At 1 January 2018 (restated)	324	(619)	9	5	(281)
Credited/(charged) to the consolidated statement of profit or loss (note 10)	–	(46)	7	1	(38)
Credited/(charged) to the consolidated statement of other comprehensive income	(2,241)	313	–	–	(1,928)
At 31 December 2018	**(1,917)**	**(352)**	**16**	**6**	**(2,247)**

27 DEFERRED TAX (CONTINUED)

(a) Deferred tax assets/(liabilities) recognised (continued)

The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Deferred tax assets	22	–
Deferred tax liabilities	(2,269)	–
	(2,247)	–

(b) Deferred tax assets not recognised

At 31 December 2018, the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately RMB4,315,000 (2017: RMB4,234,000) as it is not probable that future taxable profits, against which the assets can be utilised, will be available in any relevant tax jurisdiction or entity. Except for the tax losses of approximately RMB3,300,000 (2017: RMB4,235,000) will expire within 5 years, the remaining tax losses of approximately RMB1,015,000 (2017: RMB89,000) have no expiry date under the current tax legislation.

(c) Deferred tax liabilities not recognised

Pursuant to the Mainland China Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, the Group's fund will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in Mainland China for which deferred tax liabilities have not been recognised totally approximately RMB170,146,000 at 31 December 2018 (2017: RMB136,095,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28 SHARE CAPITAL

	2018 RMB'000	2017 RMB'000
Issued and fully paid:		
1,025,662,000 (2017: 1,025,662,000) ordinary shares of HKD0.01 each	**8,090**	8,090

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2017	1,026,162,000	8,094
Cancellation of shares (note)	(500,000)	(4)
At 31 December 2017, 1 January 2018 and 31 December 2018	1,025,662,000	8,090

Note:

During the year ended 31 December 2016, the Company repurchased 838,000 of its shares on the Hong Kong Stock Exchange at a total consideration of RMB1,606,000, of which 338,000 shares were cancelled in 2016 and 500,000 shares were cancelled in 2017.

29 SHARE OPTION SCHEME

The Company adopted a share option scheme on 19 June 2015 (the "Share Option Scheme") for the purpose of providing incentive or rewarding eligible persons (including director or employee (whether full time or part time), consultant or advisor of our Group) for their contribution to, and continuing efforts to promote the interests of our Group and for such other purposes as the Board may approve from time to time. No share option has been granted under the Share Option Scheme since its adoption by the Company. The Share Option Scheme became effective on the date of the Company's listing (8 July 2015) and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 100,000,000 shares, representing 10% of the shares of the Company in issue as at the date of adoption of the Share Option Scheme and 9.75% of the shares of the Company in issue as at the date of this annual report. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

29 SHARE OPTION SCHEME (CONTINUED)

A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HKD5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer upon payment of a nominal consideration of RMB1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised.

The exercise price of the share options shall be not less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options, which must be a date on which the Stock Exchange is open for business of dealing in securities; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Further details of the Company's share option scheme are set out in the Group's Report of the Directors.

No share options were granted during the year ended 31 December 2018 and no share options were outstanding under the Scheme as at 31 December 2018 and 2017.

30 RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity on page 95 of the financial statements.

Certain subsidiaries established in the Mainland China are required to transfer 10% of their profits after tax calculated in accordance with the Mainland China accounting regulations to their respective statutory reserve funds until the reserve funds reach 50% of their respective registered capital, upon which any further appropriation is on the directors' recommendation. Such reserve refunds are restricted from distribution to the Company in the form of dividend and may be used to reduce any losses incurred by the subsidiaries or may be capitalised as paid-up capital of the subsidiaries, provided that the remaining balance after the capitalisation is not less than 50% of the registered capital.

31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest–bearing bank borrowings RMB'000
At 1 January 2017	2,000
Changes from financing cash flows	(2,000)
At 31 December 2017 and 1 January 2018	–
Changes from financing cash flows, net	11,000
At 31 December 2018	11,000

32 OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**2,119**	1,347
In the second to fifth years, inclusive	**4,332**	–
	6,451	1,347

33 RELATED PARTY TRANSACTIONS

(a) Material transactions with key management personnel:

	2018 RMB'000	2017 RMB'000
For the year		
Maximum aggregate amount of loans	**7,350**	7,350
At the year-end		
Loans to key management personnel	**1,847**	7,350

The loans granted to key management personnel who are not directors of the Company are interest-free housing loans and have fixed terms of repayment of five years, which are included in loans to employees in note 15(i).

(b) Compensation of key management personnel of the Group:

	2018 RMB'000	2017 RMB'000
Short term employee benefits	**2,882**	3,751
Pension scheme contributions	**268**	226
	3,150	3,977

Further details of directors' emoluments are included in note 8 to the financial statements.

34 FINANCIAL INSTRUMENTS BY CATEGORY

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

2018

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at FVOCI RMB'000	Total RMB'000
Long-term receivables	11,452	14,113	25,565
Other financial assets	–	262,192	262,192
Trade receivables	22,495	–	22,495
Contract assets	54,561	–	54,561
Financial assets included in prepayments, deposits and other receivables	2,982	–	2,982
Cash and cash balances	86,251	–	86,251
	177,741	276,305	454,046

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank borrowings	11,000
Financial liabilities included in other payables and accruals	1,321
Trade payables	2,269
	14,590

34 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2017

Financial assets

	Loans and receivables RMB'000	Available –for-sale investments RMB'000	Total RMB'000
Long-term receivables	32,375	–	32,375
Other financial assets	–	25,000	25,000
Trade receivables	54,636	–	54,636
Financial assets included in prepayments, deposits and other receivables	2,898	–	2,898
Time deposits with original maturity over three months	23,000	–	23,000
Cash and cash balances	198,152	–	198,152
	311,061	25,000	336,061

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	1,240
Trade payables	463
	1,703

35 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Long-term receivables	**25,565**	32,375	**25,565**	30,766
Other financial assets	**262,192**	–	**262,192**	–
	287,757	32,375	**287,757**	30,766
Financial liabilities				
Interest-bearing bank borrowings	**11,000**	–	**11,000**	–

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables and financial liabilities included in other payables and accruals, based on their notional amounts, reasonably approximate to their carrying amounts largely due to the short-term maturities of these instruments.

Prior to 1 January 2018, available-for-sale investments which included an unlisted equity security and prepayment for an unlisted equity security were stated at cost less impairment and the directors were of the opinion that their fair value could not be measured reliably as described in note 17(iv).

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair value of financial assets at amortised costs included in long term receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credits risk and remaining maturities.

35 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of financial assets at FVOCI under Level 3 included certain long term receivables and unlisted equity investments which were previously classified as available-for-sale equity investments and relevant prepayments, have been assessed by the Appraiser using the valuation techniques of (i) income approach for well-developed and structured companies, (ii) market-based approach for new and growing companies, (iii) Black Scholes Model for financial assets with derivative embedded. The following table provides information about Level 3 fair value measurements.

Below is a summary of significant unobservable inputs to the valuation of financial instruments as at 31 December 2018:

Financial assets	Valuation techniques	Significant unobservable input
Financial assets at FVOCI included in long-term receivables	Income approach and Black Scholes Model	Expected volatility of 42% (1 January 2018: 46%), taking into account volatility in listed entities in similar industry extracted from the financial database of Wind (萬得信息技術股份有限公司) ("Wind") (note (i))
Unlisted equity securities and prepayment for unlisted equity securities	Income approach	Long-term revenue growth rates, taking into account management's experience ranging from 13% to 150% (1 January 2018: ranging from 13% to 82%) (note (ii))
		Discount rate, taking into account of WACC determined using the CAPM, ranging from 13.8% to 15.2% (1 January 2018: 15.6%) (note (iii))
	Market comparable companies	Discount for lack of marketability, determined by reference to the price/sales ratios of listed entities in similar industries extracted from database of Wind, ranging from 3.7 to 6.8 (1 January 2018: 8.2) (note (iv))
	Black Scholes Model	Expected volatility ranging from 25% to 43% (1 January 2018: 46%), taking into account the volatility in listed and unlisted entities in similar industry extracted from database of Wind (note (i))

35 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Note:

(i) An increase in the expected volatility used in isolation would result in an increase in the fair value measurement of the financial assets at FVOCI included in long-term receivables and unlisted equity securities respectively, and vice versa. 5% increase/decrease in the volatility holding all other variables constant would increase/decrease the carrying amount of the financial assets at FVOCI included in long-term receivables and unlisted equity securities by RMB238,000 and RMB1,385,000 respectively (1 January 2018: RMB334,000 and RMB456,000 respectively).

(ii) An increase in the long-term revenue growth rates used in isolation would result in an increase in the fair value measurement of the unlisted equity securities and vice versa. 2% increase/decrease in the long-term revenue growth rates holding all other variables constant would increase/decrease the carrying amount of the unlisted equity securities by RMB2,778,000 (1 January 2018: RMB1,000,000).

(iii) An increase in the discount rate used in isolation would result in a decrease in the fair value measurement of the unlisted equity securities, and vice versa. 2% increase/decrease in the discount rate holding all other variables constant would decrease/increase the carrying amount of the unlisted equity securities by RMB1,889,000 (1 January 2018: RMB1,500,000).

(iv) An increase in the price/sale ratios used in isolation would result in an increase in the fair value measurement of the unlisted equity investments, and vice versa. 5% increase/decrease in the price/sale ratio holding all other variables constant would increase/decrease the carrying amount of the unlisted equity investment by RMB1,830,000 (1 January 2018: RMB300,000).

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets				
Long-term receivables	–	–	14,113	14,113
Other financial assets	–	–	262,192	262,192
	–	–	276,305	276,305

As at 31 December 2017, the Group did not have any financial instrument measured at fair value.

35 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	Financial assets at FVOCI included in long-term receivables RMB'000	Other financial assets RMB'000	Total RMB'000
At 1 January 2017 and 31 December 2017	–	–	–
Reclassification on initial application of IFRS 9	12,000	25,000	37,000
Remeasurement on initial application of IFRS 9	2,647	(1,295)	1,352
At 1 January 2018 (restated)	14,647	23,705	38,352
Payment for purchases	–	227,537	227,537
Loan interest receivable	719	–	719
Exchange realignment	–	1,417	1,417
Changes in fair value recognised in other comprehensive income	(1,253)	9,533	8,280
At 31 December 2018	14,113	262,192	276,305

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than unlisted equity securities, comprise cash and bank balances and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing the risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases by operating units in currencies other than the units' functional currencies. Besides, certain of the Group's cash and bank balances are denominated in Hong Kong dollars.

The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rate, and no hedging transaction or forward contract arrangement was made by the Group during the reporting period. However, management closely monitors foreign exchange exposure to ensure appropriate measures are implemented in a timely and effective manner. In this respect, the Group is not exposed to any significant foreign currency exchange risk in its operation.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12–months ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Financial assets at amortised costs included in long-term receivables	11,452	–	–	–	11,452
Trade receivables (note (i))	–	–	–	22,495	22,495
Contract assets (note (i))	–	–	–	54,561	54,561
Financial assets included in prepayments, deposits and other receivables					
— Normal (note (ii))	2,982	–	–	–	2,982
Cash and bank balances					
— Not yet past due	86,251	–	–	–	86,251
	100,685	–	–	77,056	177,741

Note:

(i) For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 19 and 20 to the financial statements.

(ii) The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and long-term receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by credit quality of individual customers. As at 31 December 2017, 40% of the total trade receivables were due from the Group's five largest customers, among with, 3% of the total trade receivables as at 31 December 2017 were due from the largest customer.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through other payables. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, was as follows:

	2018			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Interest-bearing bank borrowings	**–**	**–**	**11,000**	**11,000**
Financial liabilities included in other payables and accruals	**1,321**	**–**	**–**	**1,321**
Trade payables	**–**	**2,269**	**–**	**2,269**
	1,321	**2,269**	**11,000**	**14,590**

	2017			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	1,240	–	–	1,240
Trade payables	–	463	–	463
	1,240	463	–	1,703

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No change was made in the objectives, policies or processes for managing capital during years ended 31 December 2018 and 31 December 2017.

The Group monitors capital by regularly reviewing the gearing ratio, which is total liabilities divided by total assets. The gearing ratios as at the end of the reporting periods were as follows:

	2018 RMB'000	2017 RMB'000
Total current liabilities	**32,834**	18,831
Total non-current liabilities	**2,269**	–
	35,103	18,831
Total current assets	**167,659**	279,345
Total non-current assets	**289,426**	118,786
	457,085	398,131
Gearing ratio	**8%**	5%

37 COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified or restated to conform to the current year's presentation. Besides, as further disclosed in note 2.2 to the financial statements, the Group has elected to adopt IFRS 9 and IFRS 15 prospectively from 1 January 2018 without restatement of prior period figures.

38 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**16**	93
Long-term receivables	**860**	5,702
Investment in a subsidiary	**–**	–
Total non-current assets	**876**	5,795
CURRENT ASSETS		
Prepayments, deposits and other receivables	**437**	469
Cash and cash equivalents	**257**	56,276
Due from subsidiaries	**232,473**	160,595
Total current assets	**233,167**	217,340
CURRENT LIABILITIES		
Due to subsidiaries	**4,356**	4,788
Employee related payable	**446**	20
Total current liabilities	**4,802**	4,808
NET CURRENT ASSETS	**228,365**	212,532
TOTAL ASSETS LESS CURRENT LIABILITIES	**229,241**	218,327
Net assets	**229,241**	218,327
Equity		
Share capital	**8,090**	8,090
Reserves (note)	**221,151**	210,237
Total equity	**229,241**	218,327

Approved and authorised for issue by the Board of Directors on 29 March 2019

Cheng Li *Director*	**Zhang Lake Mozi** *Director*

38 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	224,688	31,041	(20,512)	235,217
Loss for the year	–	–	(8,562)	(8,562)
Other comprehensive income for the year:				
Exchange differences related to foreign operations	–	(16,418)	–	(16,418)
Total comprehensive income for the year	–	(16,418)	(8,562)	(24,980)
At 31 December 2017 and 1 January 2018	**224,688**	**14,623**	**(29,074)**	**210,237**
Loss for the year	**–**	**–**	**1,399**	**1,399**
Other comprehensive income for the year:				
Exchange differences related to foreign operations	**–**	**10,823**	**–**	**10,823**
Total comprehensive income for the year	**–**	**10,823**	**1,399**	**12,222**
Dividend declared and paid in respect of previous year (note 12)	**–**	**–**	**(1,308)**	**(1,308)**
Balance at 31 December 2018	**224,688**	**25,446**	**(28,983)**	**221,151**

39 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2019.

FIVE YEARS FINANCIAL SUMMARY

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**109,713**	91,132	84,913	79,774	53,433
Net profit for the year attributable to the owners of the Company	**30,167**	34,584	44,867	34,525	13,465

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**457,085**	398,131	370,846	326,484	41,630
Total liabilities	**35,103**	18,831	18,004	26,051	21,895
Total equity	**421,982**	379,300	352,842	300,433	19,735