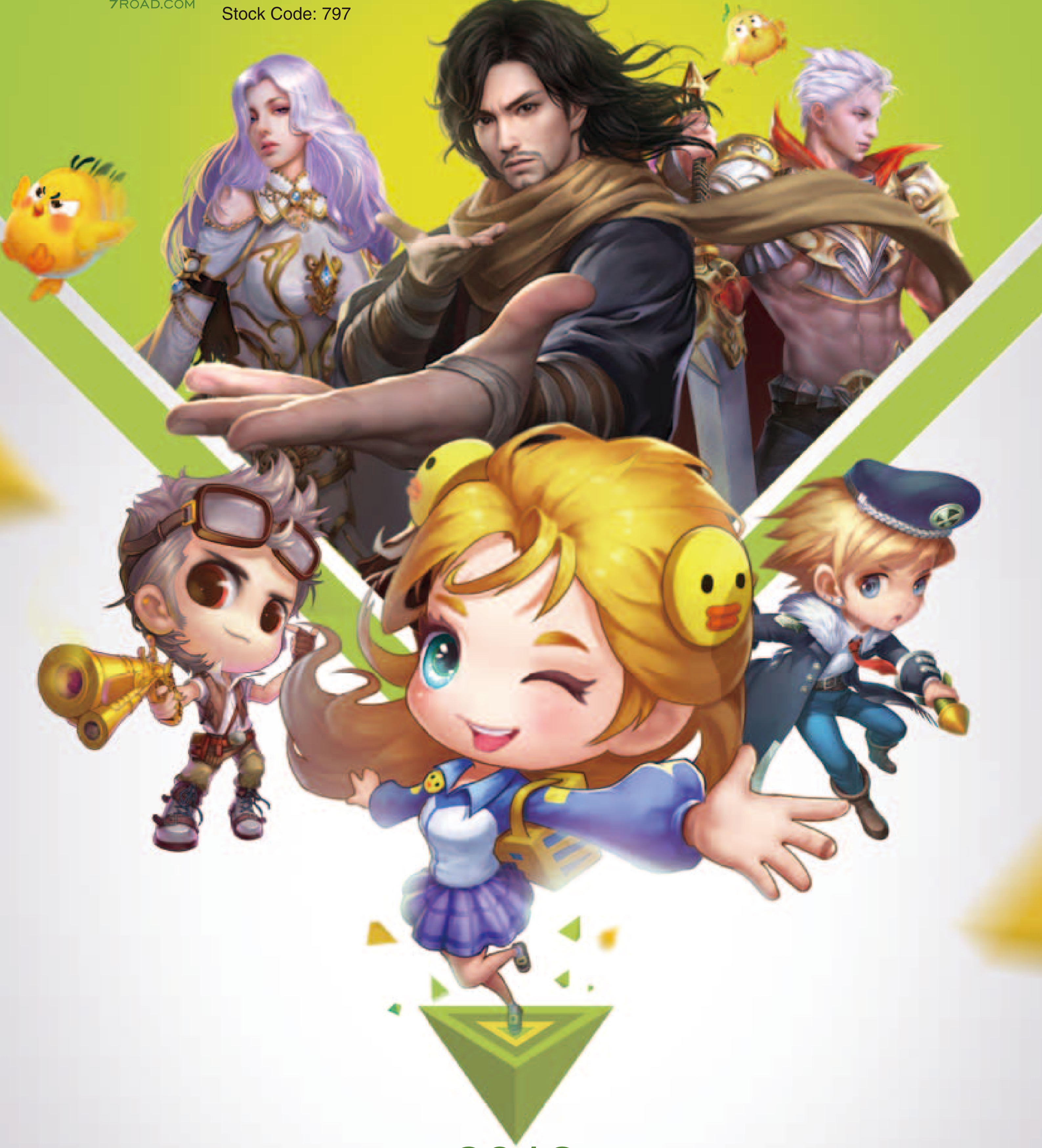
7Road Holdings Limited
第七大道控股有限公司

第七大道
7ROAD.COM

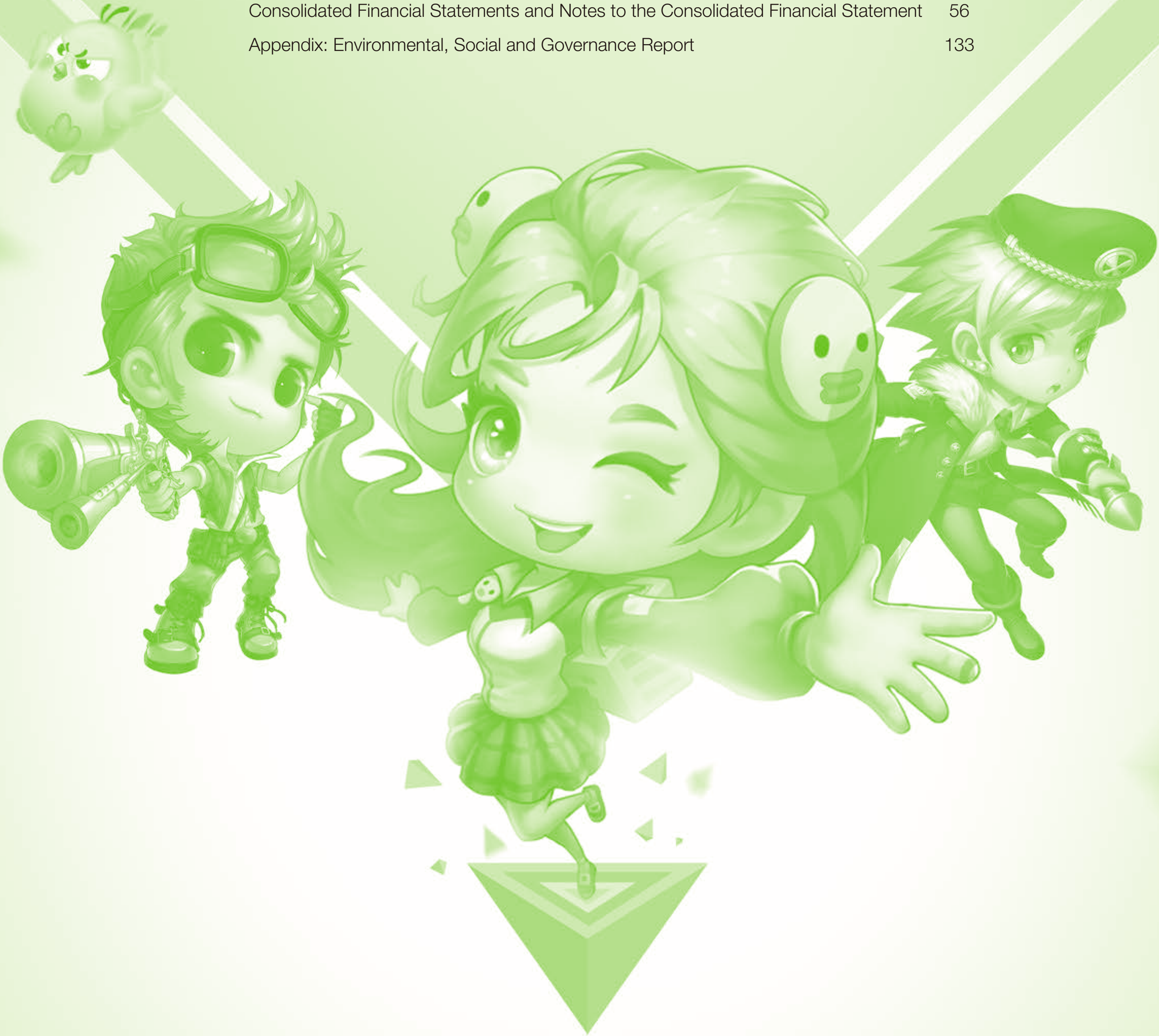
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 797



2018
Annual Report

Content



Definitions

"AGM"	the annual general meeting of the company proposed to be held on Thursday, June 20, 2019
"ARPPU"	the total revenue generated by the paying users for a particular game, a particular type of games or all of our games, as applicable, during a certain period divided by the number of paying users of the game, the type of games or all of our games, as applicable, during such period
"Audit Committee"	the audit committee of the Board
"Articles of Associations"	the articles of associations of the company conditionally adopted by the Board on June 23, 2018 and became effective on the Listing Date
"average MPUs"	the average number of paying users in the relevant calendar month; average MPUs for a particular period is the average of the MPUs in each month during that period
"Board"	the board of Directors of the Company
"CEO"	the chief executive officer of the Company
"CG Code"	the Corporate Governance Code as set out in Appendix 14 of the Listing Rules
"Chairman"	the chairman of the Board
"China" or "PRC"	the People's Republic of China, unless otherwise stated, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan of China herein
"client game(s)"	game(s) that can be played by first downloading the client base from game providers' websites and then connecting to the servers through Internet browsers
"Company", "the Company" or "our Company"	7Road Holdings Limited (第七大道控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on September 6, 2017 and listed on the Stock Exchange on July 18, 2018 (Stock Code: 797)
"Companies Law"	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Consolidated Affiliated Entities"	the entities that the Company controls through the Contractual Arrangements, namely Shenzhen 7Road and subsidiaries
"Contractual Arrangements"	certain contractual arrangements entered into on April 13, 2018 by us
"Director(s)"	the director(s) of the Company
"Digital Hollywood"	Digital Hollywood Interactive Limited, a company listed on the Stock Exchange (Stock Code: 2022)

"Global Offering"	the public offering of 66,668,000 Shares for subscription by the public in Hong Kong and the international offering (as defined respectively in the Prospectus) of 600,012,000 Shares for subscription by the institutional, professional, corporate and other investors
"Group", "we" or "us"	the Company and all of its subsidiaries and companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of the Contractual Arrangements, or, where the context so requires, in respect of the period before our Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
"H5"	a markup language used for structuring and presenting content on the World Wide Web, which is the fifth and current major version of the HTML standard
"HK$" and "HK cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huoerguosi 7Road"	Huoerguosi 7th Road Network Technology Co., Ltd. (霍爾果斯第七大道網絡科技有限公司), a company incorporated under the laws of the PRC with limited liabilities on November 27, 2015 and one of our Consolidated Affiliated entities
"IAS"	the International Accounting Standards
"IFRS"	the International Financial Reporting Standards
"Listing"	listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	the date on which the Shares were listed and initially commenced their dealings on the Stock Exchange, i.e. July 18, 2018
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"MAUs"	monthly active users, refers to the number of people logged in to specific game(s) in the relevant calendar month; average MAUs for a particular period is the average of the MAUs in each month during that period
"mobile game(s)"	game(s) that is/are played on mobile devices
"Model Code"	the Model Code of Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules
"MOC"	the Ministry of Culture of the PRC (中華人民共和國文化部), which is reformed and known as the Ministry of Culture and Tourism (中華人民共和國文化和旅遊部) since March 18, 2018

Definitions

"MPUs"	monthly paying users, refers to the number of paying users in the relevant calendar month
"Ningbo Bao Pu"	Ningbo Bao Pu Xing Sheng Investment Management Center (Limited liability partnership) (寧波趵樸鑫盛投資管理中心(有限合夥)), a limited liability partnership incorporated under the laws of the PRC on June 13, 2016, and a shareholder of Shenzhen 7Road
"Nomination Committee"	the nomination committee of the Board
"online game(s)"	video game(s) that is/are played over some form of computer or mobile network, including primarily client games, web games and mobile games
"paying users"	in any given period, (1) paying users of a particular game refers to all registered users who charged their accounts for the game with virtual items purchased from us at least once in such period regardless of whether such virtual items were consumed by the registered users in such period; and (2) paying users of a particular type or all of our game refers to the simple sum of the paying users of each game of such type or all of our games, as applicable, in such period and a paying users that purchased virtual items for two or more games in such period is counted as two or more paying users in such period
"Prospectus"	the prospectus issued by the Company dated June 29, 2018
"Qianhai Huanjing"	Shenzhen Qianhai Huanjing Network Technology Co., Ltd. (深圳市前海幻鏡網絡科技有限公司), a company incorporated under the laws of the PRC with limited liability on July 12, 2015
"R&D"	research and development
"Registered Shareholders"	include Mr. Meng Shuqi, Mr. Hu Min, Mr. Liu Jing, Ningbo Bao Pu and Shanghai Ting Can, as shareholders of Shenzhen 7Road
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	the year ended December 31, 2018
"RMB"	Renminbi, the lawful currency of the PRC
"RPGs"	role-playing games, which refer to games that involve a large number of users who interact with each other in an evolving fictional world; each user adopts skill sets (such as melee combat or casting magic spells) and controls the avatars' actions; there are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the users, and the storyline continuously evolves even while the users are offline and away from the games
"RSU Scheme"	the restricted share unit scheme adopted by our Company on March 6, 2018
"RSU(s)"	restricted share units granted pursuant to the RSU Scheme

"SAPPRFT"	the State Administration of Press, Publication, Radio, Film and Television of the PRC (國家新聞出版廣電總局)
"senior management"	the senior management of the Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Ting Can"	Shanghai Ting Can Equity Investment Center (Limited liability partnership) (上海廷燦股權投資中心(有限合夥)), a limited liability partnership incorporated under the laws of the PRC on November 11, 2015, which is a shareholder of Shenzhen 7Road
"Share(s)"	ordinary share(s) of US$0.000005 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Shenzhen 7Road"	Shenzhen 7th Road Technology Co., Ltd. (深圳第七大道科技有限公司), a company incorporated under the laws of the PRC with limited liability on January 22, 2008 and one of our Consolidated Affiliated Entities
"Shenzhen Qianqi"	Shenzhen Qianqi Network Technology Co., Ltd. (深圳千奇網絡科技有限公司), a company incorporated under the laws of the PRC with limited liability on November 28, 2013 and one of our Consolidated Affiliated entities
"SRPGs"	strategy role-playing games, which incorporate elements from strategy video games as an alternative to traditional role-playing game systems, emphasizing tactics
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of the United States
"web game(s)"	game(s) that is/are played in a web browser on personal computer without downloading any client base or application
"%"	per cent

Corporate Profile

BOARD OF DIRECTORS

Executive Directors

Mr. Meng Shuqi *(Chairman and CEO)*
Mr. Hu Min
Mr. Yang Cheng

Non-executive Directors

Mr. Li Shimeng
Mr. Yan Kaidan

Independent Non-executive Directors

Mr. Xue Jun
Mr. Liu Yunli
Mr. Wu Xiaoguang

AUDIT COMMITTEE

Mr. Xue Jun *(Chairman)*
Mr. Liu Yunli
Mr. Wu Xiaoguang

REMUNERATION COMMITTEE

Mr. Liu Yunli *(Chairman)*
Mr. Xue Jun
Mr. Wu Xiaoguang
Mr. Meng Shuqi

NOMINATION COMMITTEE

Mr. Meng Shuqi *(Chairman)*
Mr. Xue Jun
Mr. Wu Xiaoguang
Mr. Liu Yunli

JOINT COMPANY SECRETARIES

Ms. Wang Xiaorui
Mr. Cheung Kai Cheong *(CPA, FCCA)*

AUTHORIZED REPRESENTATIVES

Mr. Meng Shuqi
Mr. Cheung Kai Cheong *(CPA, FCCA)*

AUDITOR

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

COMPLIANCE ADVISOR

Red Solar Capital Limited
11/F, Kwong Fat Hong Building
1 Rumsey Street
Sheung Wan
Hong Kong

LEGAL ADVISOR

As to Hong Kong law
William Ji & Co.
(in Association with Tian Yuan Law Firm Hong Kong Office)
Suite 702, 7/F
Two Chinachem Central
26 Des Voeux Road Central
Central, Hong Kong

COMPANY WEBSITE

www.7road.com

STOCK CODE

797

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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Suite #5–204, 23 Lime Tree Bay Avenue,
P.O. Box 2547
Grand Cayman, KY1–1104
Cayman Islands

HEADQUARTERS

17/F, Unit A1
Ke Xing Science Park
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Technology Park Nanshan District
Shenzhen, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Sertus Incorporations (Cayman) Limited
Sertus Chambers, Governors Square,
Suite #5–204, 23 Lime Tree Bay Avenue,
P.O. Box 2547, Grand Cayman,
KY1–1104, Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKS

China Merchants Bank, Shenzhen Branch,
Ke Yuan sub-branch

Bank of China, Shenzhen Branch,
Yi Yuan Road sub-branch

Financial Performance Highlights

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended December 31, 2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)	2015 (RMB'000)
Revenue	**332,384**	445,295	403,151	375,611
(Loss)/profit for the year	**(98,031)**	257,181	(16,840)	168,731
(Loss)/profit for the year attributable to owners of the Company	**(98,031)**	257,181	(16,840)	168,731
Adjusted net profit[1]	**83,527**	263,297	212,000	182,192

Note:

(1) Adjusted net profit does not include share-based compensation costs and listing-related expenses, and the investment loss in Digital Hollywood (deemed disposal loss of an investment in associate) due to its change into measuring through fair value. See "Non-IFRS Measures" for details.

1. For the year ended December 31, 2018, the total revenue amounted to approximately RMB332.4 million, representing a decrease of approximately 25.4% as compared with the year ended December 31, 2017.

2. For the year ended December 31, 2018, the Company recorded a loss attributable to owners of the Company amounted to approximately RMB98.0 million.

3. For the year ended December 31, 2018, the unaudited non-IFRS adjusted net profit amounted to approximately RMB83.5 million. See "Non-IFRS Measures" for details.

CONDENSED CONSOLIDATED BALANCE SHEET

	As at December 31, 2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)	2015 (RMB'000)
Assets				
Non-current assets	**660,580**	438,007	529,294	442,706
Current assets	**675,010**	479,455	375,657	264,819
Total assets	**1,335,590**	917,462	904,951	707,525
Equity and liabilities				
Total equity	**1,177,128**	555,845	495,600	278,146
Non-current liabilities	**56,247**	55,950	184,603	150,001
Current liabilities	**102,215**	305,667	224,748	279,378
Total liabilities	**158,462**	361,617	409,351	429,379
Total equity and liabilities	**1,335,590**	917,462	904,951	707,525

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors and the management of 7Road Holdings Limited, I am pleased to present to you the annual report of the Group for the year ended December 31, 2018.

In 2018, a base of more than 2.3 billion active game players worldwide spent over US$137.9 billion in the global game market, among which 46%, or approximately 1.1 billion players willing to pay for games. Gaming spending is expected to increase at a compound annual growth rate of 10.3% to US$180.1 billion in 2021. In 2018, the actual sales revenue of China's game market was RMB214.44 billion, representing a year-on-year increase of 5.3%; the number of game players in China was approximately RMB626 million, representing a year-on-year increase of 7.3%.

In 2018, we continued to focus on game development and operation to cope with the ever-growing competition in the game industry. For the year ended December 31, 2018, we developed six new games, receiving positive feedback. We will continue to focus on the R&D and operation of high-quality online games, and, taking full advantage of the years spent in the game industry, continue to innovate and launch new games that players will adore. Leveraging our strong game R&D capabilities and our hit game titles, we have assembled valuable intellectual property assets with great future development potential.

I shall then briefly present the financial results of the Group in 2018, review the business development during the year and discuss the strategies and prospects in the coming year.

For the year ended December 31, 2018, the total revenue of the Group amounted to approximately RMB332.4 million, representing a decrease of 25.4% compared to 2017. For the year ended December 31, 2018, we recorded loss attributable to owners of the Company amounted to approximately RMB98.0 million, while the adjusted profit amounted to approximately RMB83.5 million. The decrease of total revenue and loss attributable to owners of the Group in 2018 were mainly due to the fact that SAPPRFT did not issue approvals for the application by new online games from March to the end of December 2018, which led to the delay of our schedule for applying approvals and schedule for launching certain pipeline games in Mainland China in the second half of 2018, and that the revenue of our existing games did not meet our expectation.

Among the new games published in 2018, Island Story — Let's Boom!, a casual social mobile game, with high-quality graphics, adorable cartoon avatars and engaging gameplays, bringing the players a joyful game experience; Demi-Gods and Semi-Devils, an SRPG mobile game, creates a whole new gaming world for players with its famous IP, the game has been published in Taiwan and was once ranked number one in the free Apple App Store list.

In 2018, our intellectual property rights business continued to grow. We will grant intellectual property rights with long life-cycle to R&D and distribution companies in different areas.

In 2019, strategically, we will continue to expand overseas markets while focusing on the domestic market. With respect to our principal activities, we will be committed to updating our existing games and conducting R&D of new games to consolidate the domestic market and optimize our globalization strategy. We plan to launch four mobile games and one H5 game in the 2019. Apart from our famous IP products Wartune 3D, we have also developed different types of mobile games, including love games, simulation games and war strategy games, experimenting in different areas. Meanwhile, the Group will continue the R&D of its intellectual properties through licensing intellectual properties or cooperating with third third-party developers. In addition, the Company will actively seek possible external investment and cooperation in response to the possible effect of increasingly competitive industry and evolving industrial policy on our principal activities.

I would like to take this opportunity to express my sincerest gratitude to our employees and management for their contribution and hard work over the year. I would also like to thank our shareholders for their support and their confidence in the Group.

Meng Shuqi
Chairman

Hong Kong, March 29, 2019

Profiles of Directors and Senior Management

Below are the brief profiles of our current Directors and senior management.

DIRECTORS

The Board currently comprises eight Directors, of which three are executive Directors, two are non-executive Directors and three are independent non-executive Directors. The following table sets forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
Executive Directors			
Mr. Meng Shuqi	40	Chairman, executive Director and CEO	September 6, 2017
Mr. Hu Min	36	Executive Director and chief production officer	March 6, 2018
Mr. Yang Cheng	41	Executive Director	October 29, 2018
Non-executive Directors			
Mr. Li Shimeng	32	Non-executive Director	March 6, 2018
Mr. Yan Kaidan	29	Non-executive Director	March 6, 2018
Independent non-executive Directors			
Mr. Xue Jun	43	Independent non-executive Director	December 14, 2018
Mr. Liu Yunli	38	Independent non-executive Director	June 23, 2018
Mr. Wu Xiaoguang	43	Independent non-executive Director	June 23, 2018

EXECUTIVE DIRECTORS

Mr. Meng Shuqi, aged 40, is our executive Director, Chairman and CEO. He is responsible for the overall management, strategic planning and decision-making of our Group.

Mr. Meng has more than 13 years of experience in the internet and game industry. Prior to joining our Group, from May 2004 to October 2006, Mr. Meng had served as a business manager in A8 Music Group, a company primarily engaged in value-added telecommunication service, where Mr. Meng was in charge of its business operation and commercial decision-making.

Mr. Meng joined Shenzhen 7Road in June 2009. He had served as the chief operation officer and a director of Shenzhen 7Road since May 2011. He ceased to be the director of Shenzhen 7Road in May 2013 and subsequently retired from his role as the chief operation officer in February 2014. In April 2015, Mr. Meng returned to Shenzhen 7Road and has been acting as the chief executive officer of Shenzhen 7Road since then. He has also been acting as the director and chairman of the board of Shenzhen 7Road since August 2015. Despite his temporary absence in the management of Shenzhen 7Road from March 2014 to March 2015, Mr. Meng has been in charge of the overall management, strategic planning and decision-making of Shenzhen 7Road most of the time since 2011.

Mr. Meng has been the non-executive director of Digital Hollywood from November 2015 to December 2018.

Mr. Hu Min, aged 36, is our executive Director and chief production officer. He is responsible for strategic planning and overseeing the product development of our Group.

Mr. Hu has more than eight years of experiences in the internet and game industry. He joined Shenzhen 7Road in July 2009 and had served as the chief production officer of Shenzhen 7Road from July 2013 until he temporarily retired from the position in February 2014. He returned to Shenzhen 7Road in August 2015 and has been acting as the director of Shenzhen 7Road since then. Mr. Hu's primary responsibilities, from the date he joined Shenzhen 7Road in July 2009 to his temporary departure in February 2014 and since his return to Shenzhen 7Road in January 2015, had and have been to oversee the product development of Shenzhen 7Road. Mr. Hu has also been acting as the director and manager of Qianhai Huanjing since July 2015 and the chief production officer of Shenzhen Qianqi since February 2014.

Mr. Hu received his bachelor's degree in light chemical engineering from Donghua University in July 2004.

Mr. Yang Cheng, aged 41, is our executive Director and vice president. Mr. Yang has over 15 years of experience in financial management. Mr. Yang managed the overall financial affairs of Besttone Holding Co., Ltd, a listed company on the Shanghai Stock Exchange in China (SH.600640), for more than 10 years, as the general manager of the planning and finance department and the chief financial officer. Subsequent to that, Mr. Yang worked in a technology company to assist in the overall management. Mr. Yang obtained a bachelor's degree in Economics from East China University of Science and Technology in July 2000, and a master's degree in financial management from the same university in March 2003. Mr. Yang obtained the qualification of senior accountant in December 2009.

NON-EXECUTIVE DIRECTORS

Mr. Li Shimeng, aged 32, is a non-executive Director. Mr. Li is responsible for supervising the management of our Group. Mr. Li has been acting an executive director of Shenzhen Ta Shan Corporate Management Consultancy Co., Ltd since September 2016. Mr. Li received his master's degree in law from Wuhan University in July 2009.

Mr. Yan Kaidan, aged 29, is a non-executive Director. Mr. Yan is responsible for supervising the management of our Group. Mr. Yan has been acting as an executive director of Shanghai Lu Xin Investment Management Co., Ltd since July 2017. Mr. Yan received his bachelor's degree in information management and information system from Zhejiang Gong Shang University in June 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xue Jun, aged 43, is our independent non-executive Director. Mr. Xue has over 20 years of experience in auditing and financial management. Mr. Xue served as an audit manager in PricewaterhouseCoopers from July 1998 to October 2005. He has been acting as a partner and the deputy principal of Shanghai My Whole Way Certified Public Accountants since October 2005. Mr. Xue obtained his bachelor's degree in Economics from Shanghai Jiaotong University in June 1998. Mr. Xue obtained the qualification of Chinese Certified Public Accountant and Chartered Financial Analyst in December 2001 and November 2010, respectively.

Mr. Liu Yunli, aged 38, is our independent non-executive Director. Mr. Liu has over nine years of experiences in the internet industry. Mr. Liu has been working at Sina Corporation since August 2008. Sina Corporation is a leading online media company based in China, whose shares were listed on the NASDAQ (NASDAQ: SINA) in 2004. His current position in Sina Corporation is the vice president and assistant to the chairman.

Mr. Liu received his bachelor's degree in engineering from Changchun University of Science and Technology in March 2005.

Mr. Wu Xiaoguang, aged 43, is our independent non-executive Director. Mr. Wu has extensive experience in product research and development, product planning, product operation and marketing of Internet business. Mr. Wu joined Tencent (Stock Code: 0700) in 1999 and had served as the product manager, general manager of instant messaging products, general manager of Internet business division and senior vice president of Internet services division. From 2012 to 2015, Mr. Wu had served as the Chief Executive Officer of Tencent E-Commerce Holdings Limited and was responsible for the development and management of the e-commerce business of the said company. Mr. Wu has been the founding partner of Welight Capital since 2015.

Mr. Wu received his bachelor's degree in meteorology from Nanjing University in 1996.

SENIOR MANAGEMENT

Mr. Meng Shuqi, see "— Executive Directors" for details.

Mr. Hu Min, see "— Executive Directors" for details.

Mr. Yang Cheng, see "— Executive Directors" for details.

Mr. Wang Chendong, aged 37, is our chief human resource officer. He is responsible for overseeing human resource and administrative matters of our Group.

Mr. Wang has more than 13 years of experiences in human resource management. Prior to joining our Group, Mr. Wang had served as the human resource officer and vice president in three other technology companies and had been in charge of their human resource and administrative matters for more than 10 years. Mr. Wang joined Shenzhen 7Road in September 2016 and has been serving as the chief human resource officer since then. His primary responsibilities include overseeing human resource matters and managing the human resource department of Shenzhen 7Road as well as our Group. Mr. Wang also served as an executive Director from March 2018 to December 2018.

Mr. Wang received his bachelor's degree in business administration from Xidian University in July 2004.

Mr. Xu Jia, aged 37, is our chief operation officer. Mr. Xu's primary responsibility is assisting Mr. Meng in overseeing the overall operation of our Group.

Mr. Xu has over 12 years of experience in the Internet and game industry. Prior to joining our Group, Mr. Xu had served as a senior manager in Baidu Online Technology (Beijing) Co., Ltd. from December 2005 to March 2015 where Mr. Xu was in charge of market promotion of games and other Internet products. Mr. Xu joined Shenzhen 7Road in April 2015 and has been serving as the chief operation officer since then. His primary responsibilities are to assist Mr. Meng in overseeing the overall operation of our Group.

Mr. Xu received his bachelor's degree in market management from Beijing University of Technology in July 2004.

Mr. Lin Sen, aged 42, is our chief financial officer since June 2017. He is responsible for providing overall financial and accounting guidance to our Group.

Mr. Lin has over 18 years of experience in financial reporting, accounting and auditing. From February 2001 to November 2006, Mr. Lin served as manager of PricewaterhouseCoopers. From November 2006 to January 2017, Mr. Lin had served as the chief financial officer of Palm Commerce Information Technology (China) Co. Ltd., a company primarily engaged in development and operation of lottery software, where Mr. Lin was in charge of its overall financial management and investment management. Mr. Lin has been an independent non-executive director of Loto Interactive Limited since July 10, 2017, a company listed on GEM of the Stock Exchange on May 17, 2002 (Stock Code: 8198).

Mr. Lin received his bachelor's degree in international business management from Central University of Finance and Economics in June 1998. In 2010, Mr. Lin became a registered accountant in the PRC.

Ms. Guo Hua, aged 35, is our head of the testing department and joined our Group in July 2009. Ms. Guo is responsible for overseeing product testing and managing our testing department. Ms. Guo has more than eight years of experience in the game industry. Ms. Guo joined our Group in July 2009 as a testing engineer and has been serving as our head of the testing department since June 2013.

Mr. Shi Shuanghua, aged 35, is our head of the arts department and joined our Group in October 2012. Mr. Shi is responsible for overseeing artwork designing and managing our arts department.

Mr. Shi has more than eight years of experience in the game industry. Prior to joining our Group, from February 2010 to May 2011, Mr. Shi had worked as an art manager at Hangzhou Lei Tian Technology Co., Ltd. and was responsible for the establishment and management of its arts department. Mr. Shi joined our Group in October 2012 as an art designer and has been acting as our head of the arts department of Shenzhen 7Road and then our Group since June 2014.

Mr. Shi received his bachelor's degree in arts from Guangxi Arts University Art in June 2006.

Ms. Xu Jing, aged 34, is our head of the business management department and joined our Group in August 2011. Ms. Xu is responsible for overseeing commercial data analysis and assisting in marketing strategy planning.

Ms. Xu has more than six years of experience in business management. She joined Shenzhen 7Road in August 2011 as a senior data analyst and was in charge of commercial data analysis. Ms. Xu has been acting as our head of the business management department of since March 2014.

Ms. Xu received her bachelor's degree in applied mathematics from Shangrao Normal University in July 2007 and later received a master's degree in applied mathematics from Guangzhou University in 2010.

CHANGES IN DIRECTORS AND SENIOR MANAGEMENT

Changes in Directors

- Mr. Yang Cheng has been appointed as an executive Director with effect from October 29, 2018.
- With effect from December 14, 2018, Mr. Wang Chengdong has resigned as an executive Director due to his personal reason but remains as the chief human resource officer of the Group.
- With effect from December 14, 2018, Mr. Ho Chit has resigned as an independent non-executive Director, the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee due to his personal reason.
- With effect from December 14, 2018, Mr. Xue Jun has been appointed as an independent non-executive Director, the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee.

The details of changes in Directors were set out in the announcements of the Company dated October 29, 2018 and December 14, 2018, published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.7road.com.

Changes in Senior Management

- Mr. Yang Cheng has been appointed as a vice president of the Company with effect from October 12, 2018.
- With effect from December 26, 2018, Mr. Long Chunyan has resigned as chief technology officer of the Group due to his personal reason.

Management Discussion and Analysis

OVERVIEW

We are a leading game developer and operator in China with a global reach. Since our inception in 2008, we have engaged in the R&D, operation and licensing of a number of popular web games such as DDTank (彈彈堂) and Wartune (神曲). Of which, our web games DDTank (彈彈堂) and Wartune (神曲), which were launched in 2009 and 2011 respectively, contributed a considerable portion of revenue to us. The flagship web game developed by the Company, Wartune (神曲), still ranks first among all the web games developed by Chinese companies in terms of gross billings. The Company derives a sizable portion of revenue from the overseas markets and our games have been published in more than 100 countries and regions. We are committed to bringing quality gameplay experience in various game formats to our users. In recent years, we have strategically expanded our business focuses to develop mobile games and H5 games, which are increasingly popular among the players. Leveraging our strong game R&D capabilities and our hit game titles, we have assembled valuable intellectual property assets with great monetization potential.

The "2018 Global Games Market Report" published by Newzoo in 2018 projected that a base of more than 2.3 billion active game players worldwide will spend over US$137.9 billion in the global game market in 2018. With 46% or approximately 1.1 billion players willing to pay for games, gaming spending will increase at a compound annual growth rate of over 10.3% to US$180.1 billion in 2021.

Driven by the growth of smartphone games, the Asia Pacific region is taking up increasing share of the global game market year by year, and will continue to lead in terms of revenue growth. In 2018, revenue from the Asia Pacific game market reached US$71.4 billion, accounting for 52% of the total game revenue worldwide, representing an increase of 16.8% year-on-year. The North American market will remain the second largest game market and the revenue is expected to reach US$32.7 billion, accounting for 23% of the total game revenue worldwide, representing an increase of 10% year-on-year. The European, Middle East and African markets will slightly lag behind the North American market and are expected to contribute US$28.7 billion or 21% of the total game revenue worldwide. The Latin American game market will grow to US$5.0 billion, accounting for 4% of the global market.

In 2018, the mobile game market will hold approximately 60% of the market share and develop into a huge market of over US$100 billion. Among which, the smartphone and tablet game market will be the largest game market in 2018, while revenue from smartphone and tablet games had increased to US$70.3 billion during this year, accounting for 51% of the total game revenue worldwide. Global mobile game players, which mostly comprise players on smartphones, has reached 2.2 billion. For a single country, China is still the largest game market in the world, with the revenue expected to reach US$50.7 billion in 2021.

According to the "2018 China Game Industry Report" jointly published by the China Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association and Gamma Information (CNG), the actual sales revenue of China's game market was RMB214.44 billion for the year of 2018, representing a year-on-year increase of 5.3%. In the year of 2018, the number of gamers in China reached approximately 626 million, representing an increase of 7.3% year-on-year.

As of the end of the Reporting Period, our total revenue amounted to approximately RMB332.4 million, representing a decrease of 25.4% as compared with the year of 2017. Loss attributable to owners of the Company for the year ended December 31, 2018 was approximately RMB98.0 million. Adjusted net profit for the year ended December 31, 2018 was approximately RMB83.5 million. The decrease in total revenue and the loss attributable to the owners of the Company recorded for the year ended December 31, 2018 was primarily due to:

1. The SAPPRFT ceasing the issue of approvals for publishing new online games ("Approvals") from March to the end of December 2018

Before the Company was listed on the Stock Exchange on July 18, 2018, there had been a few unofficial online media reporting that the SAPPRFT had issued a "Notice on Certain Important Issues regarding Online Game Application and Approval (《游戲申報審批重要事項通知》)" (the "**Notice**") in March 2018. Pursuant to the Notice, approvals for publishing new online games may be suspended temporarily due to the institutional reform of the SAPPRFT in March 2018, but shall be resumed shortly as soon as the official stamp for the new regulatory authority becomes officially approved for use. Nevertheless, the Notice was not found on the SAPPRFT's or other authorities' official websites or from any recognizable open sources. As a matter of fact, and as confirmed by the PRC legal advisors to the Company, the Notice shall not serve as official rules or regulations promulgated by the SAPPRFT, and no government authorities/sources, including the SAPPRFT and the MOC, have issued or promulgated any official policy, regulation or statement in respect of any cessation of issuances of Approvals or any proposed, revised or new administrative/regulatory approval procedure involving publishing and commercial launch of online games. As there had been no official announcements on the cessation or resumption of issuing Approvals, the Company, as well as the other market participants, could only reckon with the benefit of hindsight that no Approvals have been issued by the SAPPRFT from March 2018 to the end of December 2018.

The aforementioned uncertainties in the regulatory environment had caused the Company to substantially postpone its schedule for applying for Approvals and launching certain pipeline games in mainland China in the second half of 2018. Due to such cessation, the Group did not obtain any Approvals for its pipeline games which were originally scheduled to be launched in mainland China in the second half of 2018. The available net profit from the expected launch of new products ended in vain due to this delay in schedule.

2. Loss in relation to the Group's investment in Digital Hollywood

As of the date of this announcement, the Group held approximately 15.52% equity in Digital Hollywood. Digital Hollywood was making profit and its share price was on an increasing trend since the date of its listing. However, on November 8, 2018, the share price of Digital Hollywood experienced an unexpected drop of approximately 77% and continued to keep at such low level (the "**Unusual Price Movement**").

Before December 2018, the Group's investment in Digital Hollywood was accounted for as investment in associate using equity method of accounting under International Accounting Standard 28 "Investments in associates and joint ventures" ("**IAS 28**"). However, the Group's investment in Digital Hollywood has been accounted for as financial assets at fair value instead of investment in associate under IAS28 as the Group no longer had significant influence on Digital Hollywood, primarily due to the resignation of Mr. Meng Shuqi (the Chairman, CEO and executive Director) as a non-executive director of Digital Hollywood on December 27, 2018 due to his other work arrangements. According to paragraph 22(b) of IAS28, the difference between the fair value of the retained interest in Digital Hollywood and the carrying amount of the investment in Digital Hollywood, at the date when the equity method was discontinued, was recognized in the consolidated statement of profit or loss in December 2018. Consequently, the Group's investment in Digital Hollywood's shares was accounted for as financial assets at fair value through profit or loss under International Financial Reporting Standard 9 "Financial instruments".

As such, the foregoing factors resulted in an aggregate loss in the books of the Group of approximately RMB110.7 million for the year ended December 31, 2018. The loss of investment in Digital Hollywood (deemed disposal loss of an investment in associate) is eliminated from the adjusted net profit of the Company for the year ended December 31, 2018. See "Non-IFRS Measures" for details.

3. Decrease in revenue generated from existing games

The revenue generated from mainland China market for the year ended December 31, 2018 decreased by approximately 57.3% as compared with the previous year. Although the revenue generated from the international market increased by approximately 38.0% in the year of 2018, such increase was not able to offset the decrease in revenue from the mainland China market, resulting in an overall decrease in our revenue.

4. Impact of listing expenses and share-based compensations

The Group has recorded a total of RMB70.9 million for its listing expenses and share-based compensation for the year ended December 31, 2018. The listing expenses and share-based compensations are eliminated from the adjusted net profit of the Company. See "Non-IFRS Measures" for details.

The Company has been listed on the Main Board of the Stock Exchange since July 18, 2018. The listing marks an important milestone in the Company's history of development and is the initial progress for its efforts in business transformation and innovation over the past few years. It also represents investors' recognition of our strategy, performance and governance, which will be the drivers of our future growth.

OUTLOOK FOR 2019

In 2019, apart from the domestic market, we will also strategically focus on the overseas markets.

With respect to our principal activities, we will be committed to updating existing games and conducting R&D of new games to consolidate the domestic market and optimize our globalization strategy. We plan to launch four mobile games and one H5 game in 2019, which mainly include:

- Mobile game Wartune 3D (神曲 3D) (self-developed) is the official mobile game sequel of the IP of web game Wartune (神曲). It is a brand-new 3D SRPG in the Euro-American realistic style; it is a brand-new mobile game with main elements like stages getting through, world exploration and strategic combat.

In addition, we have also developed different types of mobile games, including love games, simulation games and war strategy games, experimenting in different areas.

The utilization of intellectual properties is an integral part of the Company's long-term strategy. In 2019, the Company will continue the R&D of its intellectual properties through licensing intellectual properties or cooperating with third parties. The Company will carry on recruiting more R&D talents and retaining existing talents with competitive compensation, while enhancing our R&D capabilities. In addition, the Company will actively seek possible external investment and cooperation in response to the possible effect of increasingly competitive industry and evolving industrial policy on our principal activities.

FINAL DIVIDEND

The Board did not recommend to declare final dividend for the year ended December 31, 2018.

FINANCIAL REVIEW

Operational Information

Our Games

For the year ended December 31, 2018, we kept our focus on developing and operating games to face the ever-growing competition in the game industry. As at December 31, 2018, we launched six new games, which have received positive feedbacks. We will continue to develop and operate high-quality online games and utilize our experiences in the game industry. We will continue to innovate and launch new games that will attract more players.

Our Players

We assess the operating performance with a set of key performance indicators, which include MAUs, MPUs and ARPPU. Fluctuations in our operating data are primarily a result of changes in the number of players who play, download (in the case of mobile games) and pay for virtual items and premium features in our games. Using these operating data as our key performance indicators allows us to monitor our ability to offer highly engaging online games and helps us to increase the continuous popularity of our games, gain the monetization of our player base and deal with the intense competition in the online game industry, so that we can implement better business strategies.

For the year ended December 31, 2018, our games had an average MAUs of approximately 4,260 thousand, an average MPUs of approximately 199 thousand. Among which, web games (i) had an average MAUs of approximately 2,070 thousand; (ii) an average MPUs of approximately 89 thousand; (iii) an ARPPU of approximately RMB379. Mobile games had (i) an average MAUs of approximately 2,190 thousand; (ii) an average MPUs of approximately 110 thousand; (iii) an ARPPU of approximately RMB159.

YEAR ENDED DECEMBER 31, 2018 COMPARED TO THE YEAR ENDED DECEMBER 31, 2017

The following table sets forth the comparative statements of profit or loss for the year ended December 31, 2018 and the year ended December 31, 2017.

	For the year ended December 31,		
	2018 (RMB'000)	2017 (RMB'000)	Year-on-year change %
Revenue	332,384	445,295	-25.4%
Cost of revenue	(51,116)	(37,881)	34.9%
Gross profit	281,268	407,414	-31.0%
R&D expenses	(149,343)	(92,518)	61.4%
Selling and distribution expenses	(18,558)	(16,156)	14.9%
Administrative expenses	(102,252)	(29,157)	250.7%
Net impairment losses on financial asset	(26,208)	(2,646)	890.5%
Other income	19,089	21,361	-10.6%
Other gains, net	17,286	5,260	228.6%
Operating profit	21,282	293,558	-92.8%
Finance income	3,893	6,267	-37.9%
Finance costs	(5,500)	(7,281)	-24.5%
Finance losses, net	(1,607)	(1,014)	58.5%
Share of results of associates	(1,034)	313	-430.4%
Deemed disposal loss of an investment in associates	(110,661)	—	100%
Dilution loss on an investment in associate	—	(13,612)	-100%
Profit before income tax	(92,020)	279,245	-133.0%
Income tax expense	(6,011)	(22,064)	-72.8%
Profit for the year	(98,031)	257,181	-138.1%
Add:			
Listing-related expenses	35,265	6,116	476.6%
Share-based compensation costs	35,632	—	100%
Deemed disposal loss of an investment in associate	110,661	—	100%
Adjusted net profit[(1)]	83,527	263,297	-68.3%

Note:

(1) See "Non-IFRS Measures" for details.

REVENUE

The following table sets forth the breakdown of our revenue for the year ended December 31, 2018 and 2017:

	For the year ended December 31,			
	2018		2017	
	(RMB'000)	(% of total revenue)	(RMB'000)	(% of total revenue)
Online game revenue	230,717	69.4%	388,929	87.3%
— Self-development games				
published by us	6,024	1.8%	6,663	1.5%
published by other publishers	209,148	63.0%	371,603	83.4%
— Licensed games				
published by us	2,791	0.8%	12	0.0%
published by other publishers	12,754	3.8%	10,651	2.4%
Sales of online game technology and publishing solutions services	52,480	15.8%	46,577	10.5%
Intellectual property licensing	49,187	14.8%	9,789	2.2%
Total	332,384	100.0%	445,295	100.0%

	For the year ended December 31,			
By location	2018		2017	
	(RMB'000)	(% of total revenue)	(RMB'000)	(% of total revenue)
The PRC	126,288	38.0%	295,958	66.5%
Overseas	206,096	62.0%	149,337	33.5%
Total revenue	332,384	100.0%	445,295	100%

For the year ended December 31, 2018, total revenue was approximately RMB332.4 million, representing a decrease of approximately 25.4% as compared with 2017. This was mainly attributable to the SAPPRFT ceasing the issue of approvals for publishing new online games from March to the end of December 2018, which led to a delay in launching our new games. Moreover, our existing games did not generate enough revenue to meet our expectation.

For the year ended December 31, 2018, our revenue from online games amounted to approximately RMB230.7 million, representing a decrease of approximately 40.7% as compared with 2017. This was mainly attributable to the delay in launching our new games and the decline in revenue in our existing domestic game business.

For the year ended December 31, 2018, our revenue from self-development games amounted to approximately RMB215.2 million, representing a decrease of approximately 43.1% as compared with 2017. This was mainly attributable to the decline in revenue from our existing self-developed games as compared with 2017, and the delay in launching our new games.

For the year ended December 31, 2018, our revenue from licensed games amounted to approximately RMB15.5 million, representing an increase of approximately 45.8% as compared with 2017. This was mainly because we launched several licensed games in 2018.

For the year ended December 31, 2018, our revenue from the sales of web and mobile game technology and publishing solutions services amounted to approximately RMB52.5 million, representing an increase of 12.7% as compared with 2017. This was mainly attributable to our expansion in other businesses related to the game industry by utilizing our strong R&D ability and popularity in the industry.

For the year ended December 31, 2018, our revenue from intellectual property licensing amounted to approximately RMB49.2 million, representing an increase of approximately 402.5% as compared with 2017. This was mainly attributable to our authorization and usage of our intellectual property licensing which is strong and vivid in the market.

COST OF REVENUE

Our cost of revenue mainly comprises employee salary and benefit expense, promotion fee of publishing business and cost of game licensing incurred by business units. The cost of revenue was RMB51.1 million for 2018, representing an increase of 34.9% as compared with 2017. This was mainly attributable to the increase in employee salary and benefit expense (including the expense in relation to the RSU Scheme).

Our cost of game licensing was RMB3.5 million for 2018, representing an increase of 25.6% as compared with 2017. This was mainly attributable to the increase in revenue from game licensing.

GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit was RMB281.3 million for 2018, representing a year-on-year decrease of approximately 31.0%. Our gross profit margin was 84.6% for 2018, as compared with 91.5% for 2017.

EXPENSES

R&D Expenses

Our R&D expenses primarily consist of employee salary and benefit expenses incurred by our R&D department and outsourcing expenses. The R&D expenses were RMB149.3 million for 2018, representing an increase of 61.4% as compared with 2017. This was mainly attributable to the increase in employee salary benefit expense (including the expense in relation to the RSU Scheme) and outsourcing expenses.

Administrative Expenses

Our administrative expenses primarily comprise salary and benefit expenses and professional consulting fees for employees in business units. The administrative expenses were RMB102.3 million for 2018, representing an increase of 250.7% as compared with 2017. This was mainly attributable to the increase in employee salary benefit expense (including the expense in relation to the RSU Scheme) and professional consulting service fees, and the listing expenses caused by the Company in 2018.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of advertising expenses and employee salary and benefit expense of marketing and sales staff incurred by our marketing department. The selling and marketing expenses were RMB18.6 million for 2018, representing an increase of 14.9% as compared with the corresponding period of 2017. This was mainly attributable to the increase in brand promotion fee.

Income Tax Expenses

Our income tax expenses were RMB6.0 million for 2018, representing a decrease of 72.8% as compared with of 2017. This was mainly attributable to the decrease in before tax profit. For the year ended December 31, 2018, the nominal income tax rate for our major domestic operating entities in the PRC was approximately 10%.

NON-IFRS MEASURES

To supplement our consolidated financial information which is presented in accordance with IFRS, we set forth below our adjusted net profit/(loss) as an additional financial measure which is not presented in accordance with IFRS. We believe this is meaningful because potential impacts of certain items which our management does not consider closely relevant to our operating performance have been eliminated, and this would be useful for investors to compare our financial results directly with those of our peer companies.

Adjusted net profit eliminates the effect of certain non-cash or non-recurring items, namely (i) listing-related expenses, (ii) share-based compensation expenses and (iii) loss of investment in Digital Hollywood (deemed disposal loss of an investment in associate). The term "adjusted net profit" is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year. The following table reconciles our adjusted net profit for the periods indicated to the most directly comparable financial measure calculated and presented in accordance with IFRS:

	For the year ended December 31,	
	2018 (RMB'000)	2017 (RMB'000)
(Loss)/profit for the year	**(98,031)**	257,181
Add:		
Listing-related expenses	**35,265**	6,116
Share-based compensation costs	**35,632**	—
Deemed disposal loss of an investment in associate	**110,661**	—
Adjusted net profit	**83,527**	263,297

In light of the foregoing limitations for other financial measures, when assessing our operating and financial performance, you should not consider adjusted net profit in isolation or as a substitute for our profit for the year, operating profit or any other operating performance measure that is calculated in accordance with IFRS. In addition, because such measure may not be calculated in the same manner by all companies, it may not be comparable to other similar titled measures used by other companies.

FINANCIAL POSITIONS

As of December 31, 2018, our total equity was approximately RMB1,177.1 million, as compared with approximately RMB555.8 million as of December 31, 2017. The increase in equity was mainly attributable to the funds raised by the Company through the Listing.

As of December 31, 2018, our net current assets were approximately RMB572.8 million, as compared with approximately RMB173.8 million as of December 31, 2017. The increase was mainly attributable to the increase of current assets upon the Listing and the partial repayment of previous liabilities by the Company.

LIQUIDITY AND FINANCIAL RESOURCES

	December 31, 2018 (RMB'000)	December 31, 2017 (RMB'000)	Change %
Cash at bank and on hand	286,017	130,186	119.7%
Restricted cash	3,885	165,058	-97.6%
Total	289,902	295,244	-1.8%

As of December 31, 2018, our cash at bank and on hand and restricted cash totaled RMB289.9 million, as compared with RMB295.2 million as of December 31, 2017.

GEARING RATIO

As of December 31, 2018, our gearing ratio, which is calculated as total debt divided by total assets, was 11.9%, as compared with 39.4% as of December 31, 2017.

CAPITAL EXPENDITURE

	December 31, 2018 (RMB'000)	December 31, 2017 (RMB'000)	Change %
Office computer	211.9	302.0	-29.8%
Electronic appliance	189.0	102.6	84.2%
Transportation vehicles	—	833.0	-100.0%
Software	490.7	163.1	200.9%
Construction in progress	1,533.0	1,529.1	0.3%
Total	2,424.6	2,929.8	-17.2%

Our capital expenditure includes office computer, electronic appliance, software and construction in progress. For the year ended December 31, 2018 and 2017, total capital expenditure amounted to approximately RMB2,424,600 and RMB2,929,800 respectively.

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

For the year ended December 31, 2018, we did not engage in any significant acquisition and disposal matters. Meanwhile, we are actively identifying new opportunities for business development and seeking for appropriate investment opportunities.

CHARGE ON ASSETS

As of December 31, 2018, a property for our own use was pledged to secure a bank loan granted to us in September 2016.

CONTINGENT LIABILITIES AND GUARANTEES

As of December 31, 2018, we did not have any unrecorded significant contingent liabilities, guarantees or any litigation against us.

EMPLOYEES AND REMUNERATION POLICIES

As of December 31, 2018, we had 264 full-time employees, mostly based in Shenzhen, China. The following table sets forth the number of our employees by function as of December 31, 2018:

Function	Number of employees	% of total
R&D	220	83.3%
— Game R&D	186	70.4%
— Game operation	34	12.9%
Marketing and sales	—	—
General and administration	44	16.7%
Total	264	100%

As of December 31, 2018, our employee remuneration totaled approximately RMB141.0 million (including salary, bonus, share-based compensation, pension scheme contribution, other social security fund and other employee benefits).

The remuneration of our employees is determined based on their performance, experience, competence and market comparables. Their remuneration package includes salaries, bonus related to our performance, RSUs, allowances and state-managed retirement benefit schemes for employees in the PRC. The Company also provides customized training to its staff to enhance their technical and product knowledge.

The remuneration of Directors and members of senior management is determined on the basis of each individual's responsibilities, qualification, position, experience, performance, seniority and time devoted to our business. They receive compensation in the form of salaries, bonuses, RSUs, and other allowances and benefits-in-kind, including the Company's contribution to their pension schemes on their behalf.

SUBSEQUENT EVENTS

In January 2019, the Group entered into two separate mobile game cooperation agreements with two mobile game publishers, both of them are independent third parties. Pursuant to the cooperation agreements, the Group agreed to finance the advertising and promotion of certain mobile games in overseas markets to the extent of US$25,000,000 and HK$100,000,000 ("**Cooperation Amounts**") for the period from March to December 2019 and the Group is entitled to share of the net revenue of a predetermined sharing ratio with a minimum guarantee of a return of 12% on the Cooperation Amounts. The Cooperation Amounts were paid by the Group in January 2019.

Corporate Governance Report

The Company is committed to achieving and maintaining high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound corporate governance policies and measures, and the Board is responsible for performing such corporate governance duties. The Board will continue to review and monitor the corporate governance of the Company, as well as various internal policies and procedures, including but not limited to those applicable to employees and Directors, with reference to the CG Code and other applicable legal and regulatory requirements so as to maintain a high standard of corporate governance of the Company.

During the year ended December 31, 2018, the Company has complied with the applicable code provisions of the CG Code other than the code provisions A.1.1, A.2.1 and A.2.7.

Code Provision A.1.1

Under code provision A.1.1, Board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communication. However, the Company deviated from code provision A.1.1 of CG Code in 2018 as the Company's shares were only listed on the Stock Exchange in the second half of 2018.

Code Provision A.2.1

Under code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Meng Shuqi is our Chairman and CEO. With extensive experience in the internet and game industry, Mr. Meng Shuqi is responsible for the overall strategic planning and general management of the Group and is instrumental to the Company's growth and business expansion since its establishment. The Board considers that vesting the roles of Chairman and CEO in the same person is beneficial to the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board currently comprises three executive Directors, including Mr. Meng Shuqi, two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Code Provision A.2.7

Under code provision A.2.7, the chairman should at least annually hold meetings with the independent non-executive directors without the presence of the executive directors. During the year ended December 31, 2018, a formal meeting could not be arranged between the Chairman and the independent non-executive Directors without the executive Directors present due to their tight schedules. Although such meeting was not held during the Reporting Period, the Chairman could be contacted by email or phone to discuss any potential concerns and/or questions that the independent non-executive Directors might have and would arrange to set up follow-up meetings, whenever necessary.

BOARD OF DIRECTORS

The Board is responsible for leadership and the internal control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board has general powers for the management and is conducting the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Group, who will implement the strategy and direction as determined by the Board.

The Board currently consists of eight Directors, namely Mr. Meng Shuqi (Chairman and CEO), Mr. Hu Min and Mr. Yang Cheng as executive Directors, Mr. Li Shimeng and Mr. Yan Kaidan as non-executive Directors, and Mr. Xue Jun, Mr. Liu Yunli and Mr. Wu Xiaoguang as independent non-executive Directors. None of the Directors had a relationship (including financial, family or other substantial or related relationship) with each other. The Board has a balance of skills and experience appropriate for the requirements of the business of the Group.

The biographies of the Directors are set out on pages 10 to 14 of this annual report.

Each of the executive and non-executive Directors of the Company has entered into a service contract with the Company and the Company has issued letters of appointment to each of the independent non-executive Directors. Mr. Yang Cheng was appointed as an executive Director on October 29, 2018. Mr. Xue Jun was appointed as an independent non-executive Director on December 14, 2018.

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Articles of Association, all the Directors are subject to retirement by rotation at least once every three years. Any new Director appointed by the Board (i) to fill a casual vacancy in the Board shall hold office only until the first general meeting of the Company following his appointment and shall be subject to re-election at such meeting; and (ii) as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election.

Each of the independent non-executive Directors has signed a letter of appointment with the Company until the third anniversary of the Listing Date and is subject to retirement by rotation at an annual general meeting of the Company at least once every three years.

The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The term of the service contracts and the letters of appointment may be renewed in accordance with the Articles of Association, the Listing Rules and other applicable laws.

The aggregate remuneration (including fees, salaries, contributions to pension schemes, share-based compensation expenses, discretionary bonuses, housing and other allowances and other benefits in kind) payable to the Directors for the year ended December 31, 2018 was approximately RMB8,015,000.

The remuneration of the Directors is determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group. Details of the remuneration of the Directors and senior management for the year ended December 31, 2018 are set out in note 10 and note 34 to the consolidated financial statements respectively .

The company has arranged appropriate insurance cover in respect of legal proceedings against the Directors.

The procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense as required pursuant to code provision A.1.6 of the CG Code.

During the year ended December 31, 2018 and up to the date of this annual report, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board, of whom Mr. Xue Jun is the Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

The Company has received a written confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules, and considered them to be independent.

Directors have access to the services of the company secretary to ensure that the Board procedures are followed. The joint company secretaries of the Company are Ms. Wang Xiaorui and Mr. Cheung Kai Cheong. In compliance with Rule 3.29 of the Listing Rules, Ms. Wang Xiaorui and Mr. Cheung Kai Cheong have undertaken no less than 15 hours of relevant professional training during the year ended December 31, 2018. Mr. Cheung Kai Cheong has the necessary qualifications and experience as required under Rule 3.28 and 8.17 of the Listing Rules.

All Directors attended various trainings in the Reporting Period, including trainings regarding the updating of the Listing Rules, the responsibilities and continuous obligations of Directors and the Environmental, Social and Governance Reporting Guide. The Company has arranged suitable trainings for all Directors in order to develop and refresh their knowledge and skills as part of their continuous professional development.

The Company is committed to continuously reviewing and improving its internal systems, including those in relation to internal supervision and control, and risk management.

Change in Director's information pursuant to Rule 13.51B(1) of the Listing Rules

The change in Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Mr. Meng Shuqi

- Ceased to be the non-executive director of Digital Hollywood with effect from December 27, 2018.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board has adopted a board diversity policy. The diversity policy sets out the basic principles to ensure that the Board has the requisite knowledge of the Company and experience in different business and cultural conditions of different regions and markets and a variety of perspectives necessary to maintain and enhance the overall effectiveness of the Board and taking account of succession planning. All Board appointments will continue to be made on a merit basis based on the Group's business needs from time to time while taking into account the benefit of diversity. The Company will ensure that the Board has a balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Selection of board candidates will be based on a range of factors with reference to the Company's business needs, including but not limited to age, gender, nationality, educational background, industry and professional experience. The Nomination Committee will select board members in accordance with the Company's nomination policy and will also give consideration to the board diversity policy. The Nomination Committee will review the board diversity policy at least annually to ensure its continued effectiveness.

BOARD MEETINGS

The Company has adopted a practice to convene Board meetings regularly which is at least four meetings per year and roughly on a quarterly basis. A notice of a regular Board meeting shall be delivered to all the Directors at least 14 days in advance with the matters to be discussed specified in agenda of the meeting. For other Board and committee meetings, reasonable notice is generally served. Agendas or relevant documents of the Board or committee meetings shall be despatched to the Directors or members of the committees at least 3 days prior to the convening of the meetings to ensure that they have sufficient time to review the relevant documents and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. The minutes are kept by the joint company secretaries of the Company and the copies are circulated to all Directors for reference and record purpose.

The minutes of the meetings of the Board and committees thoroughly are recorded all matters under consideration and decisions made including any problems raised by the Directors. Draft minutes of each Board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Directors have a right to review the minutes of the Board meetings and the committee meetings.

According to code provision A.1.1 of the CG Code, Board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communication. However, the Company deviated from code provision A. 1.1 of the CG Code in 2018, as the Shares were only listed on the Stock Exchange in the second half of 2018.

Prior to the Listing, a board meeting was held on March 6, 2018 to consider and approve the relevant matters in relation to the Listing. A Board meeting was held on August 28, 2018 to consider and approve the interim results announcement and interim report of the Group for the six months ended June 30, 2018. A Board meeting was held on March 29, 2019 to consider and approve the annual results announcement and annual report of the Group for the year ended December 31, 2018 and to convene the AGM of the Company. All Directors had participated in the above board meetings. The Company expects to convene at least four regular board meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the CG Code.

GENERAL MEETING

As the Shares were only listed on the Stock Exchange in the second half of 2018, no general meeting was held from the Listing Date to December 31, 2018.

BOARD COMMITTEES

The Company has three principal Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of the Board committees operates under its terms of reference. The terms of reference of the Board committees are available on the website of the Company and that of the Stock Exchange.

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with the CG Code. The Audit Committee consists of three members, namely Mr. Xue Jun, Mr. Liu Yunli and Mr. Wu Xiaoguang, our independent non-executive Directors. Mr. Xue Jun has been appointed as the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise, and provide an independent view of the effectiveness of, the financial reporting process and the risk management and internal control systems of the Group, oversee the audit process and perform other duties and responsibilities as assigned by the Board.

A meeting of the Audit Committee was held on August 28, 2018 to review the interim results of the Group for six months ended June 30, 2018 and the audit plan. A meeting of the Audit Committee was held on March 29, 2019 to review the annual results announcement and annual report of the Group for the year ended December 31, 2018, internal control policy and risk management systems, etc. All members of the Audit Committee had participated in the above meetings.

Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference in compliance with the CG Code. The Remuneration Committee has four members, comprising three independent non-executive Directors, namely Mr. Liu Yunli, Mr. Xue Jun and Mr. Wu Xiaoguang, and one executive Director, namely Mr. Meng Shuqi. Mr. Liu Yunli is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations to the Board on employee benefit arrangement.

Meetings of the Remuneration Committee were held on October 29, 2018 and December 14, 2018 to discuss matters in relation to the remuneration of the newly-appointed directors and to make recommendations to the Board. A meeting of the Remuneration Committee was held on March 29, 2019 to review the remuneration policy and structure and to make recommendations to the Board on determining the annual remuneration packages of the executive Directors and the senior management and other related matters. All members of the Remuneration Committee had participated in the above meetings.

Nomination Committee

The Company has established a Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee consists of three independent non-executive Directors, being Mr. Xue Jun, Mr. Wu Xiaoguang and Mr. Liu Yunli, and one executive Director, being Mr. Meng Shuqi, who is the chairman of the Nomination Committee.

The Nomination Committee is responsible for reviewing and assessing the composition of the Board and the independence of the independent non-executive Directors and making recommendations to the Board on appointment and removal of Directors. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board in accordance with the board diversity policy adopted by the Company. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a Director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Meetings of the Nomination Committee were held on October 29, 2018 and December 14, 2018 to discuss matters in relation to the appointment of new directors and to make recommendations to the Board. A meeting of the Nomination Committee was held on March 29, 2019 to review composition of the Board, assess the independence of independent non-executive Directors and recommend the Board on the re-election of Directors. All members of the Remuneration Committee had participated in the above meetings. During the year of 2018, the Nomination Committee has reviewed the structure, size and composition of the Board, and the nomination of candidates for directorship and made recommendations to the Board on terms of such appointment.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding dealings in the securities of the Company by the Directors, the senior management, and Group's employees who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the year under review. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management and employees of the Group during the year under review.

FRAMEWORK FOR DISCLOSURE OF INSIDE INFORMATION

The Company has in place a policy on handling and dissemination of inside information (the "**Policy**") which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way so as not to place any person in a privileged dealing position and to allow time for the market to determine the price of the listed securities of the Company with the latest available information. This Policy also provides guidelines to staff of the Company to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirements. It also includes appropriate internal control and reporting systems to identify and assess potential inside information. Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the websites of the Stock Exchange and the Company, according to the requirements of the Listing Rules.

EXTERNAL AUDITOR

For the year ended December 31, 2018, the fees paid/payable to PricewaterhouseCoopers for audit and audit-related services amounted to approximately RMB4.6 million and RMB5.8 million, respectively. For the year of 2018, no non-auditing service was provided by the external auditor.

ACCOUNTABILITY AND AUDIT

The Directors of the Company are responsible for overseeing the preparation of the consolidated financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flows during the Reporting Period. A statement from the auditor about its reporting responsibilities on the consolidated financial statements is set out on pages 51 to 55 of this annual report. In preparing the consolidated financial statements for the year ended December 31, 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimated that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the "Management Discussion and Analysis" set out on pages 15 to 25 of this annual report.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for evaluating and determining the nature and extent of the risk the Company is willing to take to achieve the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board has developed its internal management systems, which include but not limited to the following processes:

- The Board receives regular updates from the senior management and reviews the Group's business plan, financial results, investment strategies and business indicators to ensure that the business risks are identified and managed;
- The senior management supervises the Group's business performance on an on-going basis via regular meetings with respective departments and project teams, to identify potential risks and develop strategies to address the risk;
- The Group monitors a wide range of indicators, such as game statistics, player feedbacks and employee turnover rate, and responds promptly if any risk indicators arise;
- The Group works with external legal, accounting and other professional advisers at various jurisdictions to ensure that it is in compliance with relevant legislation and regulations; and
- The internal compliance department performs review on the internal control system and operational activities, and presents its findings to the Board on a regular basis.

However, the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is responsible for overseeing the management in the design, implementation and monitoring of such systems, and reviewing and maintaining appropriate and effective risk management and internal control systems. During the year ended December 31, 2018, the Board has conducted reviews of the risk management and internal control systems of the Group and considered the risk management and internal control systems of the Group have been implemented effectively and are adequate. Such reviews covered financial, compliance and operational controls. The Board has also discussed the business risk, financial risk, compliance risk, operational risk and other risks.

In addition, the Board has reviewed and considered that the resources, staff qualifications and experience, training programs and budget of the Company's accounting, compliance, legal and financial reporting functions are adequate and effective during the year ended December 31, 2018.

The Group attaches utmost importance to the proper handling and dissemination of inside information. Internal policies have been put in place to ensure that inside information is adequately controlled. To ensure the confidentiality and the timely disclosure of inside information, all employees have been provided with learning materials and guidelines regarding the handling and dissemination of inside information. Our data system controls have been implemented to ensure the access to sensitive data is restricted to authorized personnel only.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Articles of Association was conditionally adopted by the Board on June 23, 2018 and became effective on the Listing Date. A copy of the Articles of Association is available on the website of the Company and the Stock Exchange. Since the Listing Date up to the date of this annual report, there was no significant change in constitutional documents of the Company.

SHAREHOLDERS

The Company was incorporated in the Cayman Islands. Pursuant to the Articles of Association, general meetings of the Company shall also be convened on the written requisition of any one or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. Such meeting shall be held within two months after the deposit of such requisition.

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings of the Company will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Under Article 64 of the Articles of Association, any one or more Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company may at all times have the right, by a written requisition to the Board or the joint company secretaries of the Company, to require the convening of an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If, within 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.

The Board is not aware of any provisions allowing the Shareholders to put forward proposals at general meetings of the Company under the Articles of Association and the Companies Law of the Cayman Islands. Shareholders who wish to put forward proposals at general meetings of the Company may refer to the preceding paragraph to make a written requisition to require the convening of an extraordinary general meeting of the Company.

Detailed procedures for Shareholders to propose a person for election as a Director are published on the Company's website.

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company as follows:

Address: 17/F, Unit A1, Ke Xing Science Park, 15 Ke Yuan Road, the Science and Technology Park, Nanshan District, Shenzhen, PRC.

The Company will not normally deal with verbal or anonymous enquiries.

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on September 6, 2017 as an exempted company with limited liability under the Companies Law. The Group is a leading game developer and operator in China with a global reach. Since its inception in 2008, the Group has engaged in the R&D, operation and licensing of a number of popular web games.

The activities and particulars of the Company's subsidiaries are shown under note 1 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and consolidated statement of profit or loss.

BUSINESS REVIEW

A review of the Group's business during the year, which includes a discussion of the principal challenges and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. The review and discussion form part of this directors' report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has engaged professional service firms for advices regarding compliance matters with various jurisdictions which the Group's subsidiaries operate, and has kept a close watch on any new laws or regulatory changes.

During the year ended December 31, 2018 and up to the date of this annual report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company in material respects.

RESULTS AND DIVIDEND

The consolidation results of the Group for the year ended December 31, 2018 are set out on pages 56 to 63 of this annual report.

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2018.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, June 17, 2019 to Thursday, June 20, 2019, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM to be held on Thursday, June 20, 2019. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Friday, June 14, 2019.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last four financial years is set out on page 8 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended December 31, 2018 are set out in note 15 to the consolidated financial statements on page 108 to 109 of this annual report.

ENVIRONMENT POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environment protection and has not noted any material incompliance with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group has implemented environmental protection measures and has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste. See Appendix — Environmental, Social and Governance Report to this annual report for further details.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended December 31, 2018 are set out in note 26 to the consolidated financial statements on page 120 to 121 of this annual report.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the year ended December 31, 2018 are set out in the Consolidated Statement of Changes in Equity on page 60 to 61 of this annual report and in note 27 to the consolidated financial statements on page 122 of this annual report respectively. As at December 31, 2018, the Company had distributable reserves amounting to RMB3,881.6 million.

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

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the Companies Law, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

USE OF NET PROCEEDS

The Shares were listed on the Stock Exchange on the Listing Date and the net proceeds raised from the Global Offering amounted to approximately HK$874 million (approximately RMB769.1 million). There was no change in the intended use of net proceeds as previously disclosed in the Prospectus.

As at December 31, 2018, the Group had utilized the proceeds as set out in the table below:

Business Strategy	Net Proceeds from the Global Offering *(RMB million)*	Utilization as of December 31, 2018 *(RMB million)*	Unutilized amount *(RMB million)*
Proprietary online games and other IPs	230.7	40.6	190.1
Acquisition of popular IPs or other related assets, or investment in or acquisition of overseas or China-based popular IP providers	230.7	230.7	—
Investment in game developers and publishers	153.9	144.9	9.0
Fund of our game publishing business	76.9	50.0	26.9
Working capital and other general corporate purposes	76.9	26.0	50.9
Total	**769.1**	**492.2**	**276.9**

DIRECTORS

The Board currently consists of the following eight Directors:

Executive Directors

Mr. Meng Shuqi *(Chairman)*
Mr. Hu Min
Mr. Yang Cheng

Non-executive Directors

Mr. Li Shimeng
Mr. Yan Kaidan

Independent Non-executive Directors

Mr. Xue Jun
Mr. Liu Yunli
Mr. Wu Xiaoguang

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 10 to 14 in the section headed "Profiles of Directors and Senior Management" to this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Directors has entered into a service contract with the Company. Each of Mr. Meng Shuqi and Mr. Hu Min agreed to act as executive Director, and each of Mr. Li Shimeng and Mr. Yan Kaidan agreed to act as non-executive Director, for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either the Director or the Company. Mr. Yang Cheng agreed to act as executive Director with effect from October 29, 2018 and he shall hold office until the next following general meeting of the Company.

Each of the independent non-executive Directors has signed an appointment letter with the Company for an initial term of three years commencing from his respective appointment date, which may be terminated by not less than three months' notice in writing served by either of the Director or the Company. Under the respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee.

The appointments of the Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

None of the Directors (including the Directors proposed for re-election at the AGM) have a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

CONTRACT WITH CONTROLLING SHAREHOLDERS

No contract of significance was entered into between the Company or any of its subsidiaries and the controlling shareholders of the Company or any of its subsidiaries during the year ended December 31, 2018 or subsisted at the end of the year and no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries was entered into during the year ended December 31, 2018 or subsisted at the end of the year.

DIRECTOR'S INTEREST IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Other than disclosed in the section headed "Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)" in note 10(iv) to the consolidated financial statements, no transaction, arrangement and contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director or any entity connected with such a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2018.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details of the Directors' emoluments and emoluments of the five highest paid individual in the Group are set out in note 9 and note 10 to the consolidated financial statements in this annual report. The annual remunerations of senior management (excluding those who are also the Directors) fall within the following:

	Number of individuals in 2018
HK$500,001 to HK$1,000,000	—
HK$2,000,001 to HK$2,500,000	1
HK$2,500,001 to HK$3,000,000	1
HK$4,500,001 to HK$5,000,000	1
HK$6,500,001 to HK$7,000,000	1
	4

For the year ended December 31, 2018, no emoluments were paid by the Group to any Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors had waived any emoluments for the year ended December 31, 2018.

Except as disclosed above, no other payments had been made or were payable, for the year ended December 31, 2018, by our Group to or on behalf of any of the Directors.

DIRECTORS' INTERESTS IN COMPETITING BUSINESS

Save as disclosed in the section headed "Relationship with our Controlling Shareholders" in the Prospectus, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a director of the Company and/or its subsidiaries.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the "**FITE Regulations**"), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including value-added telecommunication services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "**Qualification Requirements**"). Currently, none of the applicable PRC laws, regulations or rules provided clear guidance or interpretation on the Qualification Requirements. Therefore, in order for the Company to be able to carry on its business in the PRC, the Group has entered into the Contractual Arrangements to enable the Company to exercise and maintain control over operations of the Consolidated Affiliated Entities and to consolidate these companies' financial results into the Company's results under IFRSs as if they are wholly-owned subsidiaries of the Company.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have taken and plan to continue to take specific steps to comply with the Qualification Requirements. After the Listing, the Company kept implementing its expansion plan in target overseas markets. As at December 31, 2018, the Company generated revenue from overseas markets which amounted to RMB206,096,000.

Up to the date of this annual report, there is no further update in relation to the Qualification Requirement.

The Contractual Arrangements which were in place during the year ended December 31, 2018 are as follows:

1. The voting rights proxy agreement and powers of attorney dated April 13, 2018, pursuant to which each of the Registered Shareholders irrevocably appointed Qianhai Huanjing or the Directors and their successors as his attorney-in-fact to exercise such shareholder's rights in Shenzhen 7Road (the "**Proxy Agreement and Powers of Attorney**").

2. The exclusive option agreement dated April 13, 2018, pursuant to which Registered Shareholders jointly and severally granted irrevocably to Qianhai Huanjing the rights to require the Registered Shareholders to transfer any or all their equity interests and/or assets in Shenzhen 7Road to Qianhai Huanjing and/or a third party designated by it, in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations (the "**Exclusive Option Agreement**").

3. The equity pledge agreement dated April 13, 2018, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in Shenzhen 7Road to Qianhai Huanjing as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements (the "**Equity Pledge Agreement**").

4. the Exclusive business cooperation agreement dated April 13, 2018, pursuant to which Shenzhen 7Road agreed to engage Qianhai Huanjing as its exclusive provider of technical support, consultation and other services and Shenzhen 7Road agreed to pay service fees to Qianhai Huanjing (the "**Exclusive Business Cooperation Agreement**").

No service fee was paid by Shenzhen 7Road to Qianhai Huanjing pursuant to the Exclusive Business Cooperation Agreement for the year ended December 31, 2018.

The revenue and net profit of the Consolidated Affiliated Entities subject to the Contractual Arrangements amounted to approximately RMB95.2 million and RMB40.0 million for the year ended December 31, 2018, respectively. The total assets and total liabilities of the Consolidated Affiliated Entities subject to the Contractual Arrangements amounted to approximately RMB713.7 million and RMB260.6 million as at December 31, 2018, respectively.

Risks associated with the Contractual Arrangements

For risks associated with the Contractual Arrangements, please see the section headed "Risk Factors — Risks Relating to our Corporate Structure" for details.

Material change in relation to the Contractual Arrangements

During the year ended December 31, 2018, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

Unwinding the Contractual Arrangements

The Company will unwind the Contractual Arrangements as soon as the laws allows the business of the Consolidated Affiliated Entities to be operated without the Contractual Arrangements.

However, for the year ended December 31, 2018, none of the Contractual Arrangements had been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements had been removed.

Waiver from the Stock Exchange

The Stock Exchange has granted a waiver to the Company from strict compliance with the connected transactions requirements under Chapter 14A of the Listing Rules in respect of the Contractual Arrangements. For details, please refer to the section "Connected Transactions" in the Prospectus.

TRANSFER OF NON-RESTRICTED BUSINESS

The transfer of trademarks from the Consolidated Affiliated Entities to Qianhai Huanjing was expected to occur no later than December 31, 2019 upon completion of registration of trademark transfers filed with the PRC Trademark Office. Please see the section headed "Our History and Reorganization" in the Prospectus for further details.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this annual report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

MANAGEMENT CONTRACTS

Other than the Directors' service contracts and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the year ended December 31, 2018.

EQUITY-LINKED AGREEMENTS

During the year ended December 31, 2018, the Company did not enter into any equity-linked agreement.

MATERIAL LEGAL PROCEEDINGS

The Group was not involved in any material legal proceeding during the year ended December 31, 2018.

LOAN AND GUARANTEE

During the year ended December 31, 2018, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, senior management of the Company, the controlling shareholders of the Company or their respective connected persons.

RSU SCHEME

On March 6, 2018, the RSU Scheme was approved and adopted by the then Directors of our Company. The purpose of the RSU Scheme is to incentivize Directors, senior management and employees of our Group for their contribution to our Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of our Group by providing them with the opportunity to own equity interests in our Company. Persons eligible to receive RSUs under the RSU Scheme are existing employees, directors (whether executive or non-executive, but excluding independent non-executive directors) or officers of our Company or any member of our Group (the "**RSU Eligible Persons**"). Our Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

The RSU Scheme will be valid and effective for a period of ten (10) years, commencing from March 6, 2018 (unless it is terminated earlier in accordance with its terms). As of December 31, 2018, the remaining life of the RSU Scheme was approximately nine years and three months. The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the trustee for the RSU Scheme for the purpose of the RSU Scheme from time to time. There is no maximum entitlement for each RSU Eligible Person under the rules of the RSU Scheme. Further details of the principal terms of the RSU Scheme are set out in the Prospectus.

Our Company has appointed Mr. Meng Shuqi and Mr. Hu Min as the trustees (the "**RSU Trustees**") to assist in the administration of the RSU Scheme. Our Company may (i) allot and issue Shares to the RSU Trustees to be held by the RSU Trustees and which will be used to satisfy the Shares underlying the RSUs upon exercise and/or (ii) direct and procure the RSU Trustees to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the Shares underlying the RSUs upon exercise. Our Company shall procure that sufficient funds are provided to the RSU Trustees by whatever means as our Board may in its absolute discretion determine to enable the RSU Trustees to satisfy its obligations in connection with the administration of the RSU Scheme.

As of June 30, 2018, RSUs representing 100,800,000 underlying Shares has been granted to 66 participants in the RSU Scheme pursuant to the RSU Scheme. Among the RSU participants, one is the director of Huoerguosi 7Road, a subsidiary of the Company; and five are members of the senior management of our Company.

Details of the RSUs granted under the RSU Scheme as at December 31, 2018 are set out below:

Name of the Grantees of RSU	Position held with our Group	Address	Number of underlying Shares represented by RSUs	Date of grant	Approximate percentage of interest as at December 31, 2018[1]
Director of our subsidiary and/or PRC Operating Entities (excluding those who are also Directors of our Company)					
Xu Jing	director of Huoerguosi 7Road and head of business management department	Flat 610, Chang Sheng Garden, District 43, Bao'an District, Shenzhen, PRC	6,500,000	March 31, 2018	0.24%
Senior management members of our Company (excluding those are also Directors of our Company)					
Wang Chendong	chief human resource officer	Flat 1403, Block A Jiajia Hao Yuan 223-1, Hai De First Road, Nanshan District, Shenzhen, PRC	12,000,000	March 31, 2018	0.45%
Xu Jia	chief operation officer	Room 201, Unit 2, Block 1, Chang Wa West Street, Haidian District, Beijing, PRC	20,400,000	March 31, 2018	0.76%
Lin Sen	chief financial officer	Room 101, Block 305, Estate 28, Guangqu Road, Chaoyang District, Beijing, PRC	14,000,000	March 31, 2018	0.52%
Guo Hua	head of the testing department	Flat 1907, Block 9A, Nuo De Holiday Garden, No. 0369 Qianhai Road, Nanshan District, Shenzhen, PRC	1,000,000	March 31, 2018	0.04%
Shi Shuanghua	head of the arts department	Flat 24A, Block H1, Ao Cheng Garden Phase II, Nanshan District, Shenzhen, PRC	1,250,000	March 31, 2018	0.05%

Rank/position held with our Group	Number of underlying Shares represented by RSUs	Date of grant	Approximate percentage of interest as at December 31, 2018[1]
45 game development employees	30,600,000	March 31, 2018	1.15%
10 game operation employees	6,450,000	March 31, 2018	0.24%
5 general and administration employees	8,600,000	March 31, 2018	0.32%

Note:

(1) The calculation is based on the total number of 2,666,680,000 Shares in issue as at December 31, 2018.

The Guarantees of the RSUs granted under the RSU Scheme as referred to in the table above are not required to pay for the grant of any RSU under the RSU Scheme.

For the RSUs granted on March 31, 2018 to the named individual guarantees of the RSU set out in the table above, they shall (unless our Company shall otherwise determine and so notify the RSU Participant in writing and subject to the below conditions) vest as follows:

(i) as to 30% of the RSUs on March 31, 2019;

(ii) as to 30% of the RSUs on March 31, 2020; and

(iii) as to 40% of the RSUs on March 31, 2021.

As to several game development employees, the vesting of RSUs granted to them is also subject to the initial launch date of our games in pipeline.

The above RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares. Since the Listing Date, the Company did not have any share option schemes.

As of December 31, 2018, none of the RSUs so granted had been vested.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2018, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

INTERESTS IN THE COMPANY

Name of Director/Chief Executive	Capacity/Nature of interest	Number of Shares or underlying Shares held [(2)]	Approximate percentage of issued share capital[(1)]
Mr. Meng Shuqi [(3)] [(5)]	Interest in a controlled corporation	528,854,000	19.83%
Mr. Hu Min [(4)] [(6)]	Interest in a controlled corporation	411,146,000	15.42%

Notes:

(1) The calculation is based on the total number of 2,666,680,000 Shares in issue as at December 31, 2018.

(2) All interest stated are long positions.

(3) 429,922,000 Shares are registered under the name of Ben 7Road Holdings Limited, the issued share capital of which is owned as to 100% by Mr. Meng Shuqi. Accordingly, Mr. Meng Shuqi is deemed to be interested in all the Shares held by Ben 7Road Holdings Limited for the purpose of Part XV of the SFO.

(4) 331,146,000 Shares are registered under the name of World 7Road Holdings Limited, the issued share capital of which is owned as to 100% by Mr. Hu Min. Accordingly, Mr. Hu Min is deemed to be interested in all the Shares held by World 7Road Holdings Limited for the purpose of Part XV of the SFO.

(5) 98,932,000 Shares are registered under the name of 7Road Elite Holdings Limited, the issued share capital of which is owned as to 100% by Ben 7Road Holdings Limited. Ben 7Road Holdings Limited is wholly-owned by Mr. Meng Shuqi. Accordingly, Mr. Meng Shuqi is deemed to be interested all the Shares held by 7Road Elite Holdings Limited for the purpose of Part XV of the SFO.

(6) 80,000,000 Shares are registered under the name of 7Road Talent Holdings Limited, the issued share capital of which is owned as to 100% by World 7Road Holdings Limited. World 7Road Holdings Limited is wholly-owned by Mr. Hu Min. Accordingly, Mr. Hu Min is deemed to be interested all the Shares held by 7Road Talent Holdings Limited for the purpose of Part XV of the SFO.

INTERESTS IN OTHER MEMBERS OF THE GROUP

Name of Director/ Chief Executive	Name of other members of the Group	Capacity/ Nature of interest	Approximate percentage of registered capital[1]
Mr. Meng Shuqi	Shenzhen 7Road[2]	Beneficial owner	21.50%
	Shenzhen Qianqi[2]	Interest in a controlled corporation	21.50%
	Huoerguosi 7Road[2]	Interest in a controlled corporation	21.50%
Mr. Hu Min	Shenzhen 7Road[2]	Beneficial owner	16.60%
	Shenzhen Qianqi[2]	Interest in a controlled corporation	16.60%
	Huoerguosi 7Road[2]	Interest in a controlled corporation	16.60%

Notes:

(1) All interests stated are long positions.

(2) Shenzhen 7Road, Shenzhen Qianqi and Huoerguosi 7Road, by virtue of the Contractual Arrangements, all of them are accounted for as subsidiaries of the Group.

Save as disclosed above, as at December 31, 2018, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code; or to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as the Directors were aware, as at December 31, 2018, the following persons (other than the Directors and the chief executive of the Company) or corporations who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO; or which were required to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of part XV of the SFO, were as follows:

Name	Nature of interest	Number of Shares or underlying Shares held(2)	Approximate percentage of interest(1)
Baohu Holdings Limited	Interest of a concert party to an agreement regarding interest in the Company(3)	262,486,000	9.84%
	Beneficial owner	352,714,000	13.23%
Shanghai Bao Hu Investment Management Center (Limited Partnership)	Interest of a concert party to an agreement regarding interest in the Company(3)	262,486,000	9.84%
	Interest in a controlled corporation(4)	352,714,000	13.23%
Baopu Hong Kong Limited	Interest of a concert party to an agreement regarding interest in the Company(3)	614,328,000	23.04%
	Beneficial owner	872,000	0.03%
Shanghai Bao Pu Investment Management Co., Ltd.	Interest of a concert party to an agreement regarding interest in the Company(3)	261,614,000	9.81%
	Interest in controlled corporations(4)(5)	353,586,000	13.26%
Ningbo Hao Chu Investment Management Co., Ltd.	Interest of a concert party to an agreement regarding interest in the Company(3)	261,614,000	9.81%
	Interest in controlled corporations(4)(5)	353,586,000	13.26%
Mr. Zhou Hao	Interest of a concert party to an agreement regarding interest in the Company(3)	261,614,000	9.81%
	Interest in controlled corporations(4)(5)	353,586,000	13.26%
Shangyulongcheng Holdings Limited	Interest of a concert party to an agreement regarding interest in the Company(3)	440,790,000	16.53%
	Beneficial owner	174,410,000	6.54%
Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership)	Interest of a concert party to an agreement regarding interest in the Company(3)	440,790,000	16.53%
	Interest in a controlled corporation(6)	174,410,000	6.54%
Zhejiang Long Xin Equity Investment Management Co., Ltd.	Interest of a concert party to an agreement regarding interest in the Company(3)	440,790,000	16.53%
	Interest in a controlled corporation(6)	174,410,000	6.54%

Name	Nature of interest	Number of Shares or underlying Shares held[2]	Approximate percentage of interest[1]
Wolong Holding Group Co., Ltd.	Interest of a concert party to an agreement regarding interest in the Company[3]	440,790,000	16.53%
	Interest in a controlled corporation[6]	174,410,000	6.54%
Mr. Chen Jiancheng	Interest of a concert party to an agreement regarding interest in the Company[3]	440,790,000	16.53%
	Interest in a controlled corporation[6]	174,410,000	6.54%
Ms. Chen Yanni	Interest of a concert party to an agreement regarding interest in the Company[3]	440,790,000	16.53%
	Interest in a controlled corporation[6]	174,410,000	6.54%
Red Shanghai Holdings Limited	Interest of a concert party to an agreement regarding interest in the Company[3]	527,996,000	19.8%
	Beneficial owner	87,204,000	3.27%
Ms. Wei Hong	Interest of a concert party to an agreement regarding interest in the Company[3]	527,996,000	19.8%
	Interest in a controlled corporation[7]	87,204,000	3.27%
Ben 7Road Holdings Limited	Beneficial owner	429,922,000	16.12%
	Interest in a controlled corporation[8]	98,932,000	3.71%
World 7Road Holdings Limited	Beneficial owner	331,146,000	12.42%
	Interest in a controlled corporation[9]	80,000,000	3.00%
Songshuxing Holdings Limited	Beneficial owner	189,936,000	7.12%
Mr. Song Shuxing	Interest in a controlled corporation[10]	189,936,000	7.12%
Zhonghua Financial Holdings Limited	Beneficial owner	195,082,000	7.32%

Notes:

(1) The calculation is based on the total number of 2,666,680,000 Shares in issue as at December 31, 2018.

(2) All interests stated are long positions.

(3) The partners of Ningbo Bao Pu Xing Sheng Investment Management Center (Limited partnership), namely Shanghai Bao Pu Investment Management Co., Ltd, Shanghai Bao Hu Investment Management Center, Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership) and Ms. Wei Hong, and their respective offshore holding companies had entered into a voting agreement, pursuant to which, among others, for the fi rst year after the Listing Date, Shanghai Bao Hu Investment Management Center, Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership) and Ms. Wei Hong, would unconditionally and irrevocably entrust and authorize Shanghai Bao Pu Investment Management Co., Ltd, to be their proxy in exercising their shareholders' voting rights in the Company.

(4) 352,714,000 Shares are registered under the name of Baohu Holdings Limited, the entire issued share capital of Baohu Holdings Limited is directly owned by Shanghai Bao Hu Investment Management Center. Accordingly, Shanghai Bao Hu Investment Management Center is deemed to be interest in such number of Shares held by Baohu Holdings Limited. In addition, Shanghai Bao Hu Investment Management Center is a limited liability partnership organized and existing under the laws of the PRC. The general partner of Shanghai Bao Hu Investment Management Center is Shanghai Bao Pu Investment Management Co., Ltd., Shanghai Bao Pu Investment Management Co., Ltd. is owned by Ningbo Hao Chu Investment Co., Ltd. as to 40%; and Ningbo Hao Chu Investment Co., Ltd. is owned by Mr. Zhou Hao as to 70%. Accordingly, each of Shanghai Bao Pu Investment Management Co., Ltd., Ningbo Hao Chu Investment Management Co., Ltd. and Mr. Zhou Hao is deemed to be interested in such number of Shares held by Baohu Holdings Limited.

(5) 872,000 Shares are registered under the name of Baopu Hong Kong Limited, the entire issued share capital of Baopu Hong Kong Limited is directly owned by Shanghai Bao Pu Investment Management Co., Ltd. Accordingly, Shanghai Bao Pu Investment Management Co., Ltd. is deemed to be interested in such number of Shares held by Baopu Hong Kong Limited.

(6) 174,410,000 Shares are registered under the name of Shangyulongcheng Holdings Limited, the entire issued share capital of Shangyulongcheng Holdings Limited is directly owned by Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership). Accordingly, Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership) is deemed to be interested in such number of Shares held by Shangyulongcheng Holdings Limited. In addition, Shaoxing Shang Yu Long Cheng Capital Investment is a limited liability partnership organized and existing under the laws of the PRC. The general partner of Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership) is Zhejiang Long Xin Equity Investment Management Co., Ltd., which is directly owned by Wolong Holding Group Co., Ltd.. Wolong Holding Group Co., Ltd. is owned directly as to 48.93% by Mr. Chen Jiancheng, 38.73% by Ms. Chen Yanni, who is the daughter of Mr. Chen Jiancheng and 12.34% by certain shareholders. Accordingly, each of Zhejiang Long Xin Equity Investment Management Co., Ltd., Wolong Holding Group Co., Ltd., Mr. Chen Jiancheng and Ms. Chen Yanni is deemed to be interested in such number of Shares held by Shangyulongcheng Holdings Limited.

(7) 87,204,000 Shares are registered under the name of Red Shanghai Holdings Limited, the entire issued share capital of Red Shanghai Holdings Limited is directly owned by Ms. Wei Hong. Accordingly, Ms. Wei Hong is deemed to be interested in such number of Shares held by Red Shanghai Holdings Limited.

(8) The entire issued share capital of 7Road Elite Holdings Limited is directly owned by Ben 7Road Holdings Limited. Accordingly, Ben 7Road Holdings Limited is deemed to be interested in 98,932,000 Shares held by 7Road Elite Holdings Limited.

(9) The entire issued share capital of 7Road Talent Holdings Limited is directly owned by World 7Road Holdings Limited. Accordingly, World 7Road Holdings Limited is deemed to be interested in 80,000,000 Shares held by 7Road Talent Holdings Limited.

(10) The entire issued share capital of Songshuxing Holdings Limited is directly owned by Mr. Song Shuxing. Accordingly, Mr. Song Shuxing is deemed to be interested in 189,936,000 Shares held by Songshuxing Holdings Limited.

Save as disclosed above, as at December 31, 2018, the Directors are not aware of any other person or corporation who had interests or short positions in the Shares or underlying Shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO; or which would require to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year under review was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debt securities including debentures of, the Company or any other body corporate.

MAJOR SUPPLIERS AND CUSTOMERS

In the Reporting Period, the Group's largest customers accounted for 9.0% of the Group's total revenue. The Group's five largest customers accounted for 40.4% of the Group's total revenue.

In the Reporting Period, the Group's largest suppliers accounted for 29.2% of the Group's total purchase. The Group's five largest suppliers accounted for 65.3% of the Group's total purchase.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

DIVIDEND POLICY

The Company has adopted a Dividend Policy which allows the Shareholders to share the profits of the Company whilst retaining adequate reserves for the Group's future growth. The declaration and amount of dividends shall be determined at the sole discretion of the Board. Pursuant to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:

(a) the Company's actual and expected financial performance;

(b) dividends received from the Company's subsidiaries and associates;

(c) retained earnings and distributable reserves of the Company and its subsidiaries and associates;

(d) the liquidity position of the Group;

(e) the Group's expected working capital requirements;

(f) general business conditions and strategies;

(g) taxation considerations;

(h) possible effects on creditworthiness;

(i) legal, statutory and regulatory restrictions;

(j) contractual restrictions; and

(k) any other factors that the Board deem appropriate.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

HUMAN RESOURCES

As of December 31, 2018, we had 264 full-time employees, mostly based in Shenzhen, China. The following table sets forth the number of our employees by function as of December 31, 2018:

Function	Number of employees	% of total
R&D	220	83.3%
— Game R&D	186	70.4%
— Game operation	34	12.9%
Marketing and sales	—	—
General and administration	44	16.7%
Total	264	100%

The Group has entered into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

Remuneration of the Group's employees includes basic salaries, allowances, bonus, RSUs and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. We have provided regular training to our employees in order to improve their skills and knowledge. The training courses range from further educational studies to skill training to professional development courses for management personnel.

RETIREMENT BENEFITS SCHEME

The Group's employees in Hong Kong have all participated in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Details of the pension obligations of the Company are set out in note 9 to the consolidated financial statements in this annual report.

CONNECTED TRANSACTIONS

Save as the transactions contemplated under the Contractual Arrangements, during the year ended December 31, 2018, the Group had not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended December 31, 2018 are set out in note 34 to the consolidated financial statements contained herein.

None of the related party transactions constituted a connected transaction or continuing connected transaction subject to independent Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) in relation to the director's and officer's liability insurance is currently in force and was in force during the Reporting Period.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the code provisions set out in the CG Code as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code during the Reporting Period, other than the code provisions A.1.1, A.2.1 and A.2.7.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining a high standard of corporate governance.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 26 to 32 of this annual report.

AUDITOR

The Shares were only listed on the Stock Exchange on July 18, 2018 and there has been no change in auditor since the Listing Date to the year ended December 31, 2018. The consolidated financial statements for the year ended December 31, 2018 have been audited by PricewaterhouseCoopers, Certified Public Accountants, who are proposed for reappointment at the forthcoming AGM.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended December 31, 2018, the Company is in compliance with the relevant laws and regulations that have a significant impact on the Company.

On behalf of the Board

Meng Shuqi
Chairman and CEO

Hong Kong, March 29, 2019

Independent Auditor's Report

To the Shareholders of 7Road Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of 7Road Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 132, which comprise:

- the consolidated balance sheet as at December 31, 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 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") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

- Revenue recognition — estimates of lifespan of in-game virtual items with reference to expected playing period of paying players ("Player Relationship Period") in the Group's online game service

- Fair value assessment of level 3 financial assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition — estimates of lifespan of in-game virtual items with reference to expected playing period of paying players ("Player Relationship Period") in the Group's online game service *(Refer to Note 2.22, Note 4 (a) and Note 5 to the consolidated financial statements)*	
During the year ended December 31, 2018, the Group's revenue from online games amounted to RMB230.7 million, representing 69.4% of the Group's total revenue. It was mainly derived from the sales of in-game virtual items. The in-game virtual items sold by the Group are categorised either as consumable or durable in nature. Revenue derived from consumable in-game virtual items is recognised once they are consumed, while revenue derived from durable in-game virtual items is recognised ratably over the lifespan with reference to Player Relationship Period (defined in Note 2.22), on a game by game basis. The determination of the Player Relationship Period for relevant in-game virtual items requires significant judgements and estimates by the management. These judgements and estimates included (i) the determination of key assumptions applied in the expected Player Relationship Period, including but not limited to the observation of historical paying players' behaviour, log-in records, churn rates and games life-cycle; and (ii) the identification of events that may trigger changes in the expected Player Relationship Period. We focused on this area because of the size of the online game revenue and the significant judgements involved in the determination of the Player Relationship Period.	We understood, evaluated and validated the key controls in relation to the recognition of revenue from in-game virtual items, including oversight exercised by management in determining and re-assessing the Player Relationship Period on a regular basis and the computation of the monthly revenue of in-game virtual items. We discussed with management and evaluated the appropriateness of their methodology, judgements and estimations made in determining and re-assessing the Player Relationship Period for each game by comparing with historical data and industry practice. We checked, on a sample basis, the accuracy and the integrity of the key data inputs, including the observation of the paying players' behaviour with reference to their log-in records, and calculation of churn rates used in determining Player Relationship Period, extracted from the game servers. We also tested the information system logic for generation of such data. Based on our procedures above, we found that the significant judgements and estimates involved in determining the Player Relationship Period adopted by the management were supportable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of level 3 financial assets *(Refer to Note 2.12, Note 3.3 and Note 4 (b) to the consolidated financial statements)* As at December 31, 2018, the Group had financial assets of RMB144.0 million, including financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. These assets represented unlisted equity investments measured at fair value based on significant unobservable inputs and were classified as Level 3 in the fair value hierarchy. Valuation of financial assets measured at Level 3 in the fair value hierarchy was a key area of audit focus due to the size of the amounts and the judgements necessary in selecting the unobservable inputs used in management's valuation process.	We evaluated the competence, capability and objectivity of the external valuation experts engaged by management in preparing the valuation. We assessed, with assistance from our internal valuation experts, the appropriateness of the valuation methodology and the underlying assumptions adopted by management in determining the fair value. These included the selection of comparable companies and related underlying market data (such as recent arm's length transaction prices and earnings multiples), as well as the discount for lack of marketability. We also checked the inputs used as well as the mathematical accuracy of the fair value computations. Based on the procedures above, we found that the significant judgements and estimates made by management involved in preparing the valuation of financial assets measured at Level 3 in the fair value hierarchy were supportable.

Other Information

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

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

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

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

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 29, 2019

Consolidated Statement of Profit or Loss

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Revenue	5	332,384	445,295
Cost of revenue	8	(51,116)	(37,881)
Gross profit		281,268	407,414
Research and development expenses	8	(149,343)	(92,518)
Selling and marketing expenses	8	(18,558)	(16,156)
Administrative expenses	8	(102,252)	(29,157)
Net impairment losses on financial assets		(26,208)	(2,646)
Other income	6	19,089	21,361
Other gains, net	7	17,286	5,260
Operating profit		21,282	293,558
Finance income	11	3,893	6,267
Finance costs	11	(5,500)	(7,281)
Finance costs, net	11	(1,607)	(1,014)
Share of results of associates	18	(1,034)	313
Deemed disposal loss of an investment in associate	18	(110,661)	—
Dilution loss on an investment in associate	18	—	(13,612)
(Loss)/profit before income tax		(92,020)	279,245
Income tax expense	12	(6,011)	(22,064)
(Loss)/profit for the year		(98,031)	257,181
(Loss)/profit attributable to owners of the Company		(98,031)	257,181
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company (expressed in RMB per share):			
Basic and diluted	13	(0.0461)	0.1412

The notes on pages 64 to 132 are integral parts of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
(Loss)/profit for the year		(98,031)	257,181
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Fair value changes on financial assets at fair value through other comprehensive income, net of tax		879	—
Items that may be reclassified to profit or loss			
Fair value changes on available-for-sale financial assets, net of tax		—	5,373
Currency translation differences		20,769	(3,217)
Share of other comprehensive income of associates	18	129	866
Other comprehensive income, net of tax		21,777	3,022
Total comprehensive (loss)/income for the year		(76,254)	260,203
Total comprehensive (loss)/income attributable to owners of the Company		(76,254)	260,203

The notes on pages 64 to 132 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

	Note	As at December 31, 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	18,685	19,895
Land use rights	16	71,773	73,056
Intangible assets	17	29,583	30,907
Investments in associates	18	—	175,268
Available-for-sale financial assets	20	—	41,979
Financial assets at fair value through other comprehensive income	21	5,172	—
Financial assets at fair value through profit or loss	22	138,860	80,000
Prepayment and other receivables	23	384,121	7,848
Restricted cash	25	2,182	2,728
Deferred income tax assets	30	10,204	6,326
		660,580	438,007
Current assets			
Trade receivables	24	81,547	101,367
Prepayment and other receivables	23	131,785	42,114
Income tax recoverable		4,739	458
Financial assets at fair value through profit or loss	22	169,219	43,000
Restricted cash	25	1,703	162,330
Cash and cash equivalents	25	286,017	130,186
		675,010	479,455
Total assets		1,335,590	917,462
LIABILITIES			
Non-current liabilities			
Borrowings	29	41,435	47,573
Contract liabilities	5	6,066	5,592
Deferred income tax liabilities	30	8,746	2,785
		56,247	55,950
Current liabilities			
Trade and other payables	31	42,318	62,539
Borrowings	29	6,138	112,178
Current income tax liabilities	30	—	2,835
Contract liabilities	5	53,759	128,115
		102,215	305,667
Total liabilities		158,462	361,617
Net assets		1,177,128	555,845

Consolidated Balance Sheet

	Note	As at December 31, 2018 RMB'000	2017 RMB'000
EQUITY			
Share capital/combined capital	26	88	10,042
Share premium	26	3,854,742	—
Other reserves	27	(2,969,226)	29,774
Retained earnings		291,524	516,029
Total equity attributable to owners of the Company		1,177,128	555,845

The notes on pages 64 to 132 are integral parts of these consolidated financial statements.

The financial statements on pages 56 to 132 were approved by the Board of Directors on March 29, 2019 and were signed on its behalf

Meng Shuqi
Director

Yang Cheng
Director

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000	Combined capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
		Attributable to owners of the Company					
Balance at December 31, 2017		42	10,000	—	29,774	516,029	555,845
Adjustment on adoption of IFRS 9	2.2	—	—	—	(8,359)	8,359	—
Balance at January 1, 2018		42	10,000	—	21,415	524,388	555,845
Comprehensive income/(loss)							
Loss for the year		—	—	—	—	(98,031)	(98,031)
Other comprehensive income							
Currency translation differences		—	—	—	20,769	—	20,769
Share of other comprehensive income of associates		—	—	—	129	—	129
Fair value changes on financial assets at fair value through other comprehensive income		—	—	—	879	—	879
Total comprehensive income/(loss)		—	—	—	21,777	(98,031)	(76,254)
Transactions with owners in their capacity as owners							
Issuance of ordinary shares for re-organization	26	18	(10,000)	3,058,050	(3,048,050)	—	18
Issuance of ordinary shares upon initial public offering ("IPO")	26	28	—	852,529	—	—	852,557
Shares issuance costs	26	—	—	(55,837)	—	—	(55,837)
Dividends	14	—	—	—	—	(134,833)	(134,833)
Share-based compensation	28	—	—	—	35,632	—	35,632
Total transactions with owners in their capacity as owners		46	(10,000)	3,854,742	(3,012,418)	(134,833)	697,537
Balance at December 31, 2018		88	—	3,854,742	(2,969,226)	291,524	1,177,128

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at January 1, 2017		10,000	26,752	458,848	495,600
Comprehensive income					
Profit for the year		—	—	257,181	257,181
Other comprehensive income					
Currency translation differences		—	(3,217)	—	(3,217)
Share of other comprehensive income of associates		—	866	—	866
Fair value changes on available-for-sale financial assets		—	5,373	—	5,373
Total comprehensive income		—	3,022	257,181	260,203
Transactions with owners in their capacity as owners					
Issuance of shares	26	42	—	—	42
Dividends	14	—	—	(200,000)	(200,000)
Total transactions with owners in their capacity as owners		42	—	(200,000)	(199,958)
Balance at December 31, 2017		10,042	29,774	516,029	555,845

The notes on pages 64 to 132 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	32	(49,629)	383,666
Interest received		320	348
Interest paid		(406)	(448)
Income tax paid		(15,220)	(10,494)
Net cash (used in)/generated from operating activities		(64,935)	373,072
Cash flows from investing activities			
Payments for purchase of wealth management products designated as financial assets at fair value through profit or loss		(614,793)	(167,292)
Proceeds from maturity of wealth management products designated as financial assets at fair value through profit or loss		610,235	250,455
Payment for purchase of other financial assets at fair value through profit or loss		(134,427)	(80,000)
Proceeds from sale of other financial assets at fair value through profit or loss		46,457	—
Payments for investments in financial assets at fair value through profit or loss		—	(999)
Purchases of available-for-sale financial assets		—	(27,200)
Disposal of available-for-sale financial assets		—	12,500
Prepayment for a potential investment		(369,146)	—
Proceeds from disposal of investment in an associate and financial assets at fair value through other comprehensive income		6,850	—
Dividend income		423	—
Payments for purchases of property, plant and equipment		(1,799)	(2,767)
Proceeds from disposal of property, plant and equipment		54	35
Payments for purchases of intangible assets		(467)	(163)
Loans granted to related parties		(2,687)	(5,000)
Repayments of loans granted to related parties		—	5,028
Loans granted to third parties		(195,368)	(800)
Repayments of loans granted to third parties		177,706	15,837
Net cash used in investing activities		(476,962)	(366)

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Proceeds from IPO		852,529	—
Share issuance costs		(42,359)	—
Repayments of bank borrowings		(108,854)	(28,503)
Interest received of a deposit in relation to a bank borrowing		17,425	—
Repayments of loan from an entity controlled by then holding company		—	(34,000)
Dividends paid to then holding company		(35,816)	(17,908)
Dividends paid		(136,477)	(200,000)
Interest paid		(5,178)	(6,836)
Receipt of a deposit in relation to a bank borrowing		162,330	—
Net cash generated from/(used in) financing activities		703,600	(287,247)
Net increase in cash and cash equivalents		161,703	85,459
Cash and cash equivalents at beginning of the year	25(a)	130,186	47,854
Exchange losses on cash and cash equivalents		(5,872)	(3,127)
Cash and cash equivalents at end of the year	25(a)	286,017	130,186

The notes on pages 64 to 132 are integral parts of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information and reorganisation

1.1 General information

7Road Holdings Limited (the "Company") was incorporated in the Cayman Islands on September 6, 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Sertus Chambers, Governors Square, Suite#5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the development and distribution of web games and mobile games in the People's Republic of China (the "PRC") and other countries and regions (the "Business").

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Company's board of directors on March 29, 2019.

1.2 History and reorganization of the Group

Prior to the incorporation of the Company and completion of the Group reorganization as described below ("Reorganization"), the Group's Business was carried out through Shenzhen 7Road Technology Co., Ltd. (深圳第七大道科技有限公司, "Shenzhen 7Road"), a limited liability company established in the PRC on January 22, 2008 and its subsidiaries.

Shenzhen 7Road was established in the PRC on January 22, 2008 and became a wholly-owned subsidiary of Beijing Gamease Age Digital Technology Co.,Ltd. ("Beijing Changyou") on May 1, 2013. On August 4, 2015, Shanghai Yong Chong Investment Center (Limited liability partnership) ("Yong Chong") acquired the entire equity interest in Shenzhen 7Road from Beijing Changyou and transferred 23.50%, 16.56%, 10.95% and 17.5% equity interest in Shenzhen 7Road to Mr. Meng Shuqi, Mr. Hu Min, Mr. Liu Jing and Wuxi Yi Yao Investment Center (Limited liability partnership) ("Wuxi Yi Yao"), respectively in November 2015.

In November 2016, Yong Chong transferred 0.74% and 30.76% equity interests in Shenzhen 7Road to Shanghai Ting Can Investment Center (Limited liability partnership) ("Shanghai Ting Can") and Ningbo Bao Pu Xin Sheng Asset Management (Limited liability partnership) ("Ningbo Bao Pu"), and Wuxi Yi Yao and Mr. Meng Shuqi transferred 17.50% and 2.00% equity interest in Shenzhen 7Road to Shanghai Ting Can.

In preparing for listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganization as below:

(1) On August 31, 2017, Ben 7Road Holdings Limited ("Ben Holdings"), World 7Road Holdings Limited ("World Holdings") and Zing 7Road Holdings Limited ("Zing Holdings") was incorporated in the British Virgin Islands ("BVI") and wholly owned by Mr. Meng Shuqi, Mr. Hu Min and Mr. Liu Jing, respectively.

(2) On September 6, 2017, the Company was incorporated in the Cayman Islands with limited liability and authorized share capital of US$50,000, divided into 500,000,000 shares of a par value of US$0.0001 each. One ordinary share was allotted and issued for cash at par to the initial subscriber and was subsequently transferred from the initial subscriber to Ben Holdings on the same day. The Company further allotted and issued 9,999 ordinary shares for cash at par to Ben Holdings on the same day.

1 General information and reorganisation (continued)

1.2 History and reorganization of the Group (continued)

(3) All of the other ultimate beneficial investors of Shenzhen 7Road had each incorporated a wholly-owned investment holding company in the BVI (the "Offshore Holding Companies"). Furthermore, ESOP 1 Holdings Limited ("ESOP 1 Holdings") and ESOP 2 Holdings Limited ("ESOP 2 Holdings"), limited liability companies incorporated in the BVI, were established by Ben Holdings and World Holdings, respectively to be nominees to hold the shares of the Company pursuant to the Restricted Share Unit Plan adopted by the Company on March 6, 2018 ("RSU Scheme") (Note 28).

(4) On November 17, 2017, February 28, 2018, March 12, 2018 and May 4, 2018, the Company allotted and issued an aggregate of 99,990,000 ordinary shares for cash at par to the offshore investment holding companies pursuant to the Offshore Shareholding Agreement. Immediately after this shares issuance, the shareholding structure of the Company is as follows:

Name of Company	Number of Shares	Percentage of Shareholding
Ben Holdings	21,496,100	21.4961%
World Holdings	16,557,300	16.5573%
Zing Holdings (note)	2,000,000	2.0000%
Offshore Holding Companies	51,000,000	51.00%
ESOP 1 Holdings (note)	4,946,600	4.9466%
ESOP 2 Holdings (note)	4,000,000	4.0000%

Note: Ordinary shares of the Company were allotted and issued to the Offshore Holding Companies in the same proportions as their percentage of equity interest in the Shenzhen 7Road immediately prior to the signing of the Offshore Shareholding Agreement except that an aggregate of 8,946,600 ordinary shares allotted and issued to ESOP 1 Holdings and ESOP 2 Holdings are ordinary shares originally planned to be allotted to Mr. Liu Jing in accordance with his shareholding percentage in Shenzhen 7Road. Mr. Liu Jing resigned as the director of the subsidiaries of the Group with effect from November 7, 2017 and Mr. Liu Jing agreed to contribute these shares to ESOP 1 Holdings and ESOP 2 Holdings for the purpose of establishment of the RSU Plan.

(5) On September 15, 2017, 7Road Fun Limited ("7Road BVI") was incorporated in the BVI as a wholly-owned subsidiary of the Company.

(6) On October 9, 2017, 7Road HK Digital Limited. ("7Road Hong Kong") was incorporated in Hong Kong as a wholly-owned subsidiary of 7Road BVI.

(7) On December 15, 2017, an equity transfer agreement was entered into by Shenzhen 7Road and Ms. Bao Wei, an independent third party, pursuant to which Shenzhen 7Road agreed to transfer and Ms. Bao Wei agreed to purchase 5% of the equity interest of Shenzhen Qianhai Huanjing Network Technology Co., Ltd. (深圳前海幻境網絡科技有限公司) ("Qianhai Huanjing"), a wholly-owned subsidiary of Shenzhen 7Road, at a consideration of RMB250,000. On February 10, 2018, Shenzhen 7Road and Ms. Bao Wei agreed to transfer 95% and 5% of the equity interests in Qianhai Huanjing to 7Road Hong Kong at considerations of approximately RMB2,970,000 and RMB156,000, respectively pursuant to an equity transfer agreement dated February 10, 2018. Upon the completion of the transfers, Qianhai Huanjing became an indirectly wholly-owned subsidiary of the Company and was then converted into a wholly foreign-owned enterprise.

(8) On March 1, 2018, the Company entered into a share transfer agreement with Shenzhen 7Road, pursuant to which Shenzhen 7Road transferred the entire issued shares of 7Road International Group to the Company. Since then the Company held entire equity interest in 7Road International Group and its subsidiaries.

1 General information and reorganisation (continued)

1.2 History and reorganization of the Group (continued)

(9) Pursuant to a series of contractual agreements dated April 13, 2018 (collectively, the "Contractual Arrangements") between Qianhai Huanjing, Shenzhen 7Road and their respective equity holders, Qianhai Huanjing is able to exercise and maintain control over the operation and to obtain economic benefit of the business and operations of Shenzhen 7Road and its subsidiaries. Accordingly, Shenzhen 7Road and its subsidiaries are treated as controlled structured entities of Qianhai Huanjing and ultimately controlled and consolidated by the Company.

(10) Pursuant to the shareholder voting agreement dated April 13, 2018, the three limited partners of Ningbo Bao Pu, namely Shaoxing Shang Yu Long Cheng Equity Investment Partnership Enterprise (紹興上虞龍誠股權投資合夥企業(有限合夥)) ("Shaoxing Shang Yu"), Shanghai Bao Hu Investment Management Centre (上海趵虎投資管理中心(有限合夥)) ("Shanghai Bao Hu") and Ms. Wei Hong, would unconditionally and irrevocably entrust and authorize Shanghai Bao Pu Investment Management Co., Ltd. (上海趵樸投資管理有限公司) ("Shanghai Bao Pu"), the sole general partner of Ningbo Bao Pu, to be their proxy in exercise their shareholders' voting rights in the Company (the"Offshore Voting Arrangement"). Shanghai Bao Pu, Shaoxing Shang Yu, Shanghai Bao Hu and Ms. Wei Hong are collectively referred to as the controlling shareholders of the Company (the "Controlling Shareholders"), with respective interests in the Company in the same proportions as their interests in Ningbo Bao Pu.

(11) On June 23, 2018, the shareholders resolved, among other things subject to the Global Offering becoming unconditional, that all the issued and unissued ordinary share of US$0.0001 par value each of our Company will be subdivided into 20 Shares of US$0.000005 par value each such that the authorized share capital of our Company shall be US$50,000 divided into 10,000,000,000 Shares of par value US$0.000005 each and the issued share capital shall be US$10,000 divided into 2,000,000,000 Shares of US$0.000005 par value each.

1 General information and reorganisation (continued)

1.2 History and reorganization of the Group (continued)

Upon completion of the Reorganization in March 2018, the Company become the holding company of all the companies now comprising the Group. As at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Particulars of issued and paid-in capital	Equity interest held as at December 31, 2017	2018	Principal activities
Directly held by the Company					
7Road Fun Limited	BVI/September 15, 2017	US$1	N/A	100%	Investment holdings
Indirectly held by the Company					
7Road HK Digital Limited (香港第七大道數位有限公司)	Hong Kong/October 9, 2017	Hong Kong Dollar ("HK$") 1	N/A	100%	Investment holdings
Shenzhen Qianhai Huanjing Network Technology Co., Ltd* (深圳市前海幻境網絡科技有限公司)	PRC/July 12, 2015	RMB5,000,000	100%	100%	Online game development, promotion and management
Shenzhen 7Road Technology Co., Ltd.* (深圳第七大道科技有限公司)	PRC/January 22, 2008	RMB10,000,000	100%	100%	Online game development, promotion and management
Shenzhen Qianqi Network Technology Co,. Ltd.*(深圳市千奇網路科技有限公司) ("Shenzhen Qianqi")	PRC/November 28, 2013	RMB26,000,000	100%	100%	Online game development, promotion and management
Huoerguosi 7th Road Network Technology Co., Ltd (霍爾果斯第七大道網路科技有限公司)	PRC/November 27, 2015	RMB10,000,000	100%	100%	Online game development, promotion and management
7Road International Group Limited	BVI/May 12, 2015	US$1	100%	100%	Publication of online games
7Road UK	UK/July 3, 2009	British Pound 100	100%	100%	Publication of online games
7Road International HK Limited (第七大道國際(香港)有限公司)	Hong Kong/June 3, 2015	HK$1	100%	100%	Publication of online games
7Road International Ptd.Led	Singapore/ September 28, 2015	Singaporean Dollar 1	100%	100%	Publication of online games

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of 7Road Holdings Limited and its subsidiaries.

2.1 Basis of preparation

Immediately prior to and after the Reorganization, the Group's Business was carried out by Shenzhen 7Road and its subsidiaries. Pursuant to the Reorganization, the Group's Business are effectively controlled by Qianhai Huanjing, and ultimately controlled by the Company, through direct equity holding and the Contractual Arrangements. The Company and those companies newly set up during the Reorganization have not been involved in any other business prior to the Reorganization and their operations do not meet the definition of a business. The Reorganization is merely a reorganization of the Group's Business and does not result in any changes in business substance, nor in any management of the Group's Business. Accordingly, the consolidated financial statements of the companies now comprising the Group is presented using the carrying value of the Group's Business for all periods presented.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, which are carried at fair value.

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

2.2 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018:

IFRS 9 Financial Instruments
IFRS 15 Revenue from Contracts with Customers
Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
Annual Improvements 2014–2016 cycle
Transfers to Investment Property — Amendments to HKAS 40
Interpretation 22 Foreign Currency Transactions and Advance Consideration

These new and amendments to the standards that effective for the year ended December 31, 2018 do not have a material impact on these consolidated financial statements except below:

2 Summary of significant accounting policies (continued)

2.2 New and amended standards adopted by the Group (continued)

IFRS 9

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities.

- It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling.

- There is now a new expected credit losses ("ECL") model that replaces the incurred loss impairment model used in IAS 39.

- For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

- IFRS 9 also relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

Effect of the adoption of IFRS 9

The Group has adopted IFRS 9 since January 1, 2018, which resulted in a change in accounting policies and adjustments to the amounts recognized in the consolidated financial statement. In accordance with the transitional provision under IFRS 9, comparative figures are not required to be restated.

Management has assessed the classification and measurement of the financial assets held by the Group at the date of initial application of IFRS 9 and has classified its financial instruments into the appropriate IFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss). The main effects resulting from this reclassification are as follows:

As at January 1, 2018	Before adoption of IFRS 9 RMB'000	Effect of adoption of IFRS 9 RMB'000	After adoption of IFRS 9 RMB'000
Available-for-sale financial assets	41,979	(41,979)	—
Financial assets at fair value through profit or loss (non-current)	80,000	11,829	91,829
Financial assets at fair value through profit or loss (current)	43,000	—	43,000
Financial assets at fair value through other comprehensive income	—	30,150	30,150
Equity — available-for-sale financial assets fair value reserve	8,359	(8,359)	—
Equity — retained earnings	516,029	8,359	524,388

2 Summary of significant accounting policies (continued)

2.2 New and amended standards adopted by the Group (continued)

IFRS 9 (continued)

Effect of the adoption of IFRS 9 (continued)

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

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, while the Group does not have any such liabilities. Furthermore, the impact for hedging accounting is not applicable to the Group as the Group has not entered into any hedging instruments.

IFRS 15

IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations.

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a five-step approach:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognize revenue when each performance obligation is satisfied

The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which that company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

Under IFRS 15, the Group recognizes revenue when a performance obligation is satisfied and takes into consideration when multiple performance obligations are identified.

Effect of the adoption of IFRS 15

The Group has adopted IFRS 15 since January 1, 2018 and elected to apply the modified retrospective approach which means the cumulative impact of the adoption shall be recognized in retained earnings as of January 1, 2018 and that comparatives shall not be restated. The main impact of IFRS 15 is identified as related to the upfront revenue recognition of the Group's license arrangements while the impact assessed by the management is immaterial to the Group, therefore, the adoption of IFRS 15 did not have any material impact on the consolidated financial statements of the Group.

2 Summary of significant accounting policies (continued)

2.3 Impact of standards issued but not yet applied by the entity

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning January 1, 2018 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019
IAS 19	Employee benefits on plan amendment, curtailment or settlement	January 1, 2019
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
IFRS 17	Insurance contracts	January 1, 2021
Amendments to IFRS 9	Prepayment features with negative compensation	January 1, 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	January 1, 2019
Annual improvements to IFRS Standards 2015–2017 cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	January 1, 2019

IFRS 16

IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 "Leases", and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted subject to the entity adopting IFRS 15 "Revenue from contracts with customers" at the same time.

As at December 31, 2018, the operating lease commitments of the Group amounted to RMB13,616,000 (Note 33), the impact of adoption of IFRS 16 is therefore not expected to have a significant effect on the financial statement of the Group.

IFRS 3 (amendment)

IFRS 3 (amendment) clarifies the definition of business. Under the new amendment, to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new amendment is mandatory for which the acquisition date is on or after January 1, 2020. The Group does not intend to adopt this standard before its effective date.

Apart from the above, other new standards and amendments to standards are not expected to have a significant effect on the consolidated financial statements of the Group.

2 Summary of significant accounting policies (continued)

2.4 Subsidiaries

(a) Consolidation

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

(i) Subsidiaries controlled through Contractual Agreements

As described in note 1.2, the wholly-owned subsidiary of the Company, Shenzhen Qianhai Huanjing Network Technology Co., Ltd. ("Qianhai Huanjing"), has entered into the Contractual Agreements, including Exclusive Business Cooperation Agreement, Exclusive Option Agreement, Share Pledge Agreement, and Powers of Attorney Agreement, with Shenzhen 7Road and its equity holders, which enable Qianhai Huanjing and the Group to:

- governing the financial and operating policies of Shenzhen 7Road;
- exercise equity holders' voting rights of Shenzhen 7Road;
- receive substantially all of the economic interest returns generated by Shenzhen 7Road in consideration for the business support, technical and consulting services provided by Qianhai Huanjing;
- obtain an irrevocable and exclusive right with an initial period of 10 years to purchase all or part of the equity interests in Shenzhen 7Road from the respective equity holders at a minimum purchase price permitted under PRC laws and regulations. Qianhai Huanjing may exercise such options at any time until it has acquired all equity interests of Shenzhen 7Road;
- obtain a pledge over the entire equity interests of Shenzhen 7Road from its respective equity holders as collateral security for all of Shenzhen 7Road's payments due to Qianhai Huanjing and to secure performance of Shenzhen 7Road's obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Shenzhen 7Road and its subsidiaries, receive variable returns from its involvement with Shenzhen 7Road and its subsidiaries, has the ability to affect those returns through its power over Shenzhen 7Road and its subsidiaries and is considered to control Shenzhen 7Road and its subsidiaries. Consequently, the Company regards Shenzhen 7Road and its subsidiaries as the controlled entities and consolidated the financial position and results of operations of these entities in the consolidated financial statements of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Shenzhen 7Road and its subsidiaries and such uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Shenzhen 7Road and its subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Qianhai Huanjing, Shenzhen 7Road and its equity holders are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

2 Summary of significant accounting policies (continued)

2.4 Subsidiaries (continued)

(a) Consolidation (continued)

(ii) Business combination

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

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

2 Summary of significant accounting policies (continued)

2.4 Subsidiaries (continued)

(a) Consolidation (continued)

(iv) Disposal of subsidiaries

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

(b) Separate financial statements

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

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

2.5 Associates

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

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

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

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

2 Summary of significant accounting policies (continued)

2.5 Associates (continued)

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

Gain or losses on dilution of equity interest in associates are recognized in the statement of profit or loss.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company.

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company and its overseas subsidiaries are US$, while the functional currencies of the Company's subsidiaries in the PRC are RMB. As the major operations of the Group are within the PRC, the Group determined to present its financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

2 Summary of significant accounting policies (continued)

2.7 Foreign currency translation (continued)

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.8 Property, plant and equipment

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

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

Depreciation on Property, plant and equipment is calculated using the straightline method to allocate their cost to their residual values over their estimated useful lives, as follows:

—	Buildings	30 years
—	Servers and other equipment	3 years
—	Vehicles	4 years
—	Furniture	5 years
—	Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other gains/(losses), net' in the statement of profit or loss.

2 Summary of significant accounting policies (continued)

2.9 Land use rights

Land use rights represent prepayment for land and are stated at cost less accumulated amortization and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated. Amortization of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.10 Intangible assets

(a) Goodwill

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

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

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

(b) Computer software licenses

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of one to three years, and recorded in amortization within operating expenses in the statement of profit or loss.

(c) Game copyrights

Game copyrights are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives of five to ten years.

(d) Domain names

Domain names are initially recognized and measured at costs incurred to acquire and bring to use them. The costs are amortized on a straight-line basis over domain names' estimated useful lives of ten years and recorded in amortization within operating expenses in the statement of profit or loss.

2.11 Impairment of non-financial assets

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

2 Summary of significant accounting policies (continued)

2.12 Financial assets

(a) Classification and measurement

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group 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 that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

2 Summary of significant accounting policies (continued)

2.12 Financial assets (continued)

(a) Classification and measurement (continued)

Debt instruments

Initial recognition and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. There are three categories into which the Group classifies its debt instruments:

- Amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortized cost. A gain or loss on a debt investment measured at amortized cost which is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is recognized using the effective interest rate method.

- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at fair value through other comprehensive income. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in "other gains, net" in the consolidated income statement. Interest income from these financial assets is recognized using the effective interest rate method.

- Fair value through profit or loss: Financial assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are classified as and measured at fair value through profit or loss. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognized in profit or loss and presented in "other gains, net" for the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

2 Summary of significant accounting policies (continued)

2.12 Financial assets (continued)

(b) Impairment

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised since initial recognition.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a deposit or receivable has occurred since initial recognition, the impairment is measured as lifetime expected credit losses.

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(c) Accounting policies applied until December 31, 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until December 31, 2017, the Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period. See Note 19 for details about each type of financial asset.

(i) Financial assets at fair value through profit or loss

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading. They are presented as current assets if they are expected to be sold within 12months after the end of the reporting period; otherwise they are presented as non-current assets. The Group's short-term investments were classified as financial assets at fair value through profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of trade and other receivables and cash and cash equivalents.

2 Summary of significant accounting policies (continued)

2.12 Financial assets (continued)

(c) Accounting policies applied until December 31, 2017 (continued)

(iii) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at fair value through profit or loss, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

At initial recognition, the Group 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 that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement.

Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for "financial assets at fair value through profit or loss" — in profit or loss within other gains/losses

- for "available-for-sale financial assets" that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortized cost of the security are recognized in the income statement and other changes in the carrying amount are recognized in other comprehensive income

- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognized in the income statement when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss and on loans and receivables calculated using the effective interest method are recognized as interest income in the income statement.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

2 Summary of significant accounting policies (continued)

2.12 Financial assets (continued)

(c) Accounting policies applied until December 31, 2017 (continued)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortized cost

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in income statement. Impairment testing of accounts receivable is described in Note 3.1.

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in income statement-is removed from equity and recognized in the income statement.

Impairment losses on equity instruments that were recognized in income statement are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through income statement.

2 Summary of significant accounting policies (continued)

2.12 Financial assets (continued)

(d) Determination of fair value

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 in the principal market (or in the absence of a principal market, the most advantageous market) at the measurement date.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants.

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

(e) Offsetting financial instruments

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

2.13 Trade and other receivables

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

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment.

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2 Summary of significant accounting policies (continued)

2.16 Trade payables

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

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

2.17 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.18 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

2 Summary of significant accounting policies (continued)

2.18 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

Outside basis differences

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

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

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

2.19 Employee benefits

(a) Pension and social obligations

The Group companies operate various defined contribution plan in accordance with the local conditions and practices in which they operate. Defined contribution plans are pensions and the other social benefit plans under which the Group pay fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as labor costs when they are due.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2 Summary of significant accounting policies (continued)

2.20 Equity-settled share-based payments arrangements

Share-based compensation arrangement represents the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments (such as restricted share or options) is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

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

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

In case it is an option arrangement, when the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

2.21 Provisions

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

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

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

2.22 Revenue recognition

The Group adopted IFRS 15 on January 1, 2018, applying the modified retrospective method to contracts that were not completed as of January 1, 2018. Effective January 1, 2018, the Group evaluated and recognized revenue based on a five step approach:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to each performance obligation
- Recognize revenue when each performance obligation is satisfied

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided, stated net of discounts, returns and value added taxes. Revenue is recognized when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

(a) Online game revenue

The Group is a web-based and mobile online game developer and also a publisher. The Group's online game revenue are generated primarily from its self-operated, i.e. game publishing by the Group's platforms, and licenced-out, i.e. game publishing by other publisher under various game distribution arrangements.

The Group's online games are operated under free-to-play model whereby game players can play the games free of charge and are charged for the purchase of in-game tokens, which entitle the game players to exchange for in-game virtual items, including those consumable and durable virtual items.

(i) Revenue from online game published by the Group

The Group sells the in-game tokens to its game players via payment channels, such as various mobile carriers and third-party internet payment systems. The in-game tokens are non-refundable and non-cancellable, and can exchange for virtual items. The payment channels are entitled to a handling fee which is withheld and deducted from the gross proceeds collected from the game players, with the net amounts remitted to the Group.

The Group is obligated to provide on-going services to the game players and such obligation is not deemed to be inconsequential after game players purchase in-game virtual items. Revenue is recognized when the Group satisfies its performance obligations, i.e. point in time for the consumable virtual items upon consumed and over the estimated playing period of paying players ("Player Relationship Period") for the durable virtual items, given there is an implicit obligation of the Group to maintain and allow access of the players to the games operated by the Group.

Estimation of Player Relationship Period

The Group estimates the Player Relationship Period and re-assesses such periods semi-annually. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games developed by the Group until the new game establishes its own patterns and history. The Group also considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period. Adjustments arising from changes in the estimated useful lives of durable virtual items are applied prospectively.

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

(a) Online game revenue (continued)

(ii) Revenue from online game published by other publisher under game distribution arrangements

The Group also grants its online games to third-party game publishers ("Publishers") to publish its online games through their own platforms, including web-based and mobile game portals, or other distribution platforms, including major social networking websites (such as Facebook), online application stores installed in mobile (such as Apple Inc.'s App Store ("Apple App") and Google Play), web-based and mobile game portals.

Proceeds earned from selling in-game tokens are collected by the Publishers or its designated payment platform and shared between the Group and the Publishers based on a pre-determined rate.

The Group is jointly obligated to provide on-going services to the game players

In certain arrangements, the Group are responsible for providing game product, technical support and upgrades, while the Publishers are responsible for publishing (including determining the platforms), providing payment solution, customer service, promotion activities and other daily game operation, and the right to determine the ultimate pricing of in-game virtual items are shared among the Group and the Publishers.

The Group recognizes the revenue amounts that the Group is entitled, i.e. on a net basis and under the same principles as stated in (i) above as the Group is jointly obligated to provide on-going services to the game players.

The Group is obligated to the Publishers to operate the licensed-out games

In certain arrangements, the Group grants its online game to the Publishers and the Publishers pay license fees for the exclusive right to operate the Group's games in specified geographic areas. The license fees normally comprise of a fixed license fees (either up-front or under specific payment schedule) and variable fees calculated based on a predetermined rate on the cash paid by game players collected by the Publishers related to the licensed-out games. The Group views the third-party Publishers as its customers as the Group does not have the primary responsibility for fulfilment and acceptability of the game services.

Under these arrangements, apart from providing game license and initial game content, the Group is also obligated to provide post-sale services to the Publishers, including when-and-if-available technical support and upgrades. The performance obligations of the Group in these arrangements comprise of the transfer of control of game license and post-sale services. The fixed license fees are allocated between the game license and post-sale services based on relative fair value of the standalone performance obligation. The amount allocated to the game license is recognized as revenue at the point in time when the license is granted and the commencement of the license period, given that it is considered to be a right to use the game licence, and the amount allocated to post-sale services is recognized as revenue ratably over the license period.

The variable license fees which are contingent upon future events (future cash paid by game players collected by the Publishers related to the licensed game title) are recognized when the contingency is met provided that collectability is reasonably assured.

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

(b) Revenue from intellectual property licensing

The Group also generates revenue from licensing its copyrights to other online game companies for agreed periods. The license fees normally comprise of a fixed license fees (either up-front or under specific payment schedule) and variable fees calculated based on a predetermined terms. Normally the Group do not have any substantive post-sale services to the licensee.

The revenue from licensing agreements is recognized at the point in time when the license has been transferred to the licensee given that it is considered to be a right to use arrangement. The variable license fees which are contingent upon future events (future cash paid by game players collected by the Publishers related to the licensed game title) are recognized when the contingency is met provided that collectability is reasonably assured.

(c) Sales of online game technology and publishing solutions services

The Group sells technology development services, games installation services, software copyrights and publishing solutions services to third parties. revenue is recognized when the services are rendered.

2.23 Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

2.24 Research and development costs

The expenditure on an internal research and development project is classified into research cost and development cost based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Research cost is recognized in profit or loss in the period in which it is incurred. Development cost is capitalize only if all of the following conditions are satisfied:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset, and use or sell it;
- Management ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate economic benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The expenditure attributable to the intangible asset during its development phase can be reliably measured.

The development cost of an internally generated intangible asset is the sum of the expenditure incurred from the date the asset meets the recognition criteria above to the date when it is available for use. The development costs capitalized in connection with the intangible asset include costs of materials and services used or consumed and employee costs incurred in the creation of the asset.

2 Summary of significant accounting policies (continued)

2.24 Research and development costs (continued)

Capitalized development costs are amortized using the straight-line method over their estimated useful lives.

Development costs not satisfying the above criteria are recognized in the profit or loss as incurred. Development costs previously recognized as expenses are not recognized as an asset in a subsequent period.

During the years ended December 31, 2018 and 2017, the Group did not capitalized any development costs.

2.25 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

2.26 Operating Leases

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

2.27 Dividend distribution

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

2.28 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account: (i) the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and (ii) the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally through overseas publishers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US$. Foreign exchange risk primarily arose from recognized assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. The Group did not hedge against any fluctuation in foreign currency during the years ended December 31, 2018 and 2017.

For the Group's PRC subsidiaries whose functional currency is RMB, if US$ had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax loss would have been approximately RMB2,835,000 lower/higher for the year ended December 31, 2018 and the post-tax profit would have been approximately RMB6,319,000 higher/lower for the year ended December 31, 2017, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US$.

(ii) Price risk

The Group is exposed to price risk in respect of investments held by the Group that are classified on the consolidated balance sheet either as at fair value through other comprehensive income or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis.

The Group's financial assets at fair value through other comprehensive income are held for capital appreciation and business strategic purposes. The sensitivity analysis is determined based on the exposure to equity price risks of financial assets at fair value through other comprehensive income at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% higher/lower, the other comprehensive income for the years ended December 31, 2018 would have been approximately RMB220,000 lower/higher.

In respect of the Group's financial assets at fair value through profit or loss, the sensitivity analysis is determined based on the exposure to price risk of financial assets at fair value through profit or loss at the end of the reporting period. If the fair value of the respective instruments held by the Group had been 5% higher/lower, the post-tax loss for the year ended December 31, 2018 would have been approximately RMB24,008,000 lower/higher and the post-tax profit would have been approximately RMB5,535,000 higher/lower.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank borrowings. All borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

The Group analyses its interest rate exposure on a regular basis to consider the options available for refinancing, renewal of existing positions, and alternative financing.

As at December 31, 2018, if the interest rate had increased/decreased by 100 basis points with all other variables held constant, post-tax loss for the year ended December 31, 2018 would have been approximately RMB592,000 higher/lower and post-tax profit for the year ended December 31, 2017 would have been approximately RMB1,789,000 lower/higher, mainly as a result of increase/decrease in interest expense on borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents and restricted cash placed with banks, trade receivables and other loan and receivables. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

(i) Risk management

Credit risk is managed on group basis. Finance team is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. The Group assesses the credit quality of its customers and other debtors by taking into account various factors including their financial position, past experience and other factors.

Cash and cash equivalents and restricted cash are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. These has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model: trade receivables and other receivables.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

The expected loss rates are based on the payment profiles of sales over a period of 36 month before December 31, 2018, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at December 31, 2018 was determined as follows:

Receivables	Expected credit loss	Basis for recognition of expected credit loss provision	Estimated gross amount at default As at December 31, 2018 RMB'000	Carrying amount (net of impairment provision) As at December 31, 2018 RMB'000
Trade receivables	4.1%	Life time expected credit losses	85,012	81,547
Loans to third parties	3.5%	12 months expected credit losses	19,153	16,320
Receivables from government	—	12 months expected credit losses	9,266	9,266
Others	1.6%	12 months expected credit losses	7,525	7,403

Apart from the above expected credit loss, the Group also provided certain full impairment provision against receivables for certain incurred losses to the extent of RMB23,103,000, due to financial difficulty in the relevant counterparties identified by the Group, of which included an amount of RMB20,299,000 related to receivable from disposal of investments during the year (Note 23(e)).

The closing loss allowances for trade receivables as at December 31, 2018 and 2017, reconcile to the opening loss allowances as follows:

	Trade receivables 2018 RMB'000	Trade receivables 2017 RMB'000
At January 1, 2018	1,259	1,259
Increase in loss allowance recognised in profit or loss	2,323	1,870
Receivables written off during the year as uncollectible	(117)	(1,870)
At December 31, 2018	3,465	1,259

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and indicators of severe financial difficulty.

Impairment losses on trade receivables are presented as net impairment losses on financial assets within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(c) Liquidity risk

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

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At December 31, 2018					
Borrowings	8,490	8,215	22,638	18,110	57,453
Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables) (Note 31)	24,964	6	367	—	25,337
	33,454	8,221	23,005	18,110	82,790
At December 31, 2017					
Borrowings	114,857	8,490	23,643	25,320	172,310
Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables) (Note 31)	47,882	—	—	—	47,882
	162,739	8,490	23,643	25,320	220,192

3 Financial risk management (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other owners and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the directors of the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to owners, return capital to owners, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low.

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at December 31, 2018 by level of the inputs to valuation techniques used to measure fair value.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at December 31, 2018				
Financial assets at fair value through other comprehensive income (Note 21)	—	—	5,172	5,172
Financial assets at fair value through profit or loss (Note 22)	124,383	44,836	138,860	308,079
	124,383	44,836	144,032	313,251
As at December 31, 2017				
Available-for-sale financial assets	—	—	41,979	41,979
Financial assets at fair value through profit or loss (Note 22)	—	—	123,000	123,000
	—	—	164,979	164,979

As at December 31, 2018 and 2017, none of the Group's financial liabilities are measured at fair value.

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

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

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

The changes in level 3 instruments of financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss for the years ended December 31, 2018 have been disclosed in Notes 21 and 22, respectively.

The components of the level 3 instruments include investments in unlisted equity securities. As these instruments are not traded in an active market, their fair values have been determined using various applicable methodologies.

	Amount at December 31, 2018	Valuation technique	Significant unobservable inputs	Percentage or ratio range	Sensitivity of fair value to the input
Unlisted equity securities	38,430	Recent transaction price (note i)	N/A	N/A	N/A
Unlisted equity securities	100,430	Market approach	• Earnings multiples of comparable companies	7.68-9.26	Note ii
			• Discount for lack of marketability	10%–15%	

Notes:

(i) The unlisted equity investments mainly comprise of equity investments in private game companies at start-up stage and management considered that the recent transaction price is the appropriate valuation method for this type of investment.

(ii) The following table summarizes the quantitative information about the significant unobservable inputs used level 3 fair value measurements.

Key unobservable inputs	Range of inputs	Change	Fair value change for the year ended December 31, 2018 RMB'000
Earnings multiples of comparable companies	7.68 – 9.26	+5%	(5,067)
	7.68 – 9.26	-5%	4,512
Discount for lack of marketability	10% – 15%	+5%	5,356
	10% – 15%	-5%	(5,911)

4 Critical accounting estimates and judgments

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

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

(a) Estimates of Player Relationship Period in the Group's online game services

As described in Note 2.22, the Group recognizes certain revenue from sale of in-game durable virtual items in online game services ratably over the Player Relationship Period. The determination of the Player Relationship Period for relevant in-game virtual items requires significant judgement and estimates by the management. These judgements and estimates included (i) the determination of key assumptions applied in the expected Player Relationship Period, including but not limited to the observation of historical paying players' behaviour, log-in records, churn rates and games life-cycle; and (ii) the identification of events that may trigger changes in the expected Player Relationship Period. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

(b) Fair value measurement of level 3 financial assets

The fair value of financial assets that are not quoted in active markets is determined by using valuation techniques. These include the use of recent arm's length transactions, net asset value, and comparable companies approach and other valuation techniques commonly used by market participants, which require selection of significant unobservable inputs in the valuation process, including but not limited to recent arm's length transaction prices, discount for lack of marketability, earnings multiple of comparable companies, etc. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets.

(c) Impairment provision for trade and other receivable

The impairment provisions for trade and other receivables are based on assumptions about the expected credit loss rates. The Group uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical data, existing market conditions as well as forward looking information at the end of each reporting period. For details of the key assumptions and inputs used, refer to Note 3.1 (b), Note 23 and Note 24. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statements of profit or loss.

5 Segment information and revenue

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision maker. As a result of this evaluation, the directors of the Company consider that the Group's operations are operated and managed as a single segment and no segment information is presented, accordingly.

As at December 31, 2018, substantially, the majority of the non-current assets of the Group other than certain long-term receivables were located in the PRC.

Revenue for the years ended December 31, 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
Online Game Revenue	230,717	388,929
— Self-development games		
published by the Group	6,024	6,663
published by other publishers	209,148	371,603
— Licensed games		
published by the Group	2,791	12
published by other publishers	12,754	10,651
Sales of online game technology and publishing solutions services	52,480	46,577
Intellectual property licensing	49,187	9,789
	332,384	445,295

Revenues of approximately RMB134,164,000 and RMB224,770,000 for the years ended December 31, 2018 and 2017, respective were derived from five largest single external customers.

During the year ended December 31, 2018, no revenues were derived from respective single external customers, each of which accounted for more than 10% of total revenue.

During the year ended December 31, 2017, revenue of approximately RMB126,014,000 was derived from a single external customer, which accounted for more than 10% of the total revenue.

5 Segment information and revenue (continued)

The Group has recognized the following liabilities related to contracts with customers:

	2018 RMB'000	2017 RMB'000
Contract liabilities		
Current		
Advance from customers	33,790	74,809
Game copyrights	10,179	4,371
Game revenue derived from game players	9,790	48,935
	53,759	128,115
Non-Current		
Game copyrights	6,066	5,592
Total contract liabilities	59,825	133,707

Contract liabilities primarily represented the unamortized revenue derived from sale of in-game virtual items in the Group's online game services and advance payments from third parties publishers, which the Group continued to have obligations as at the reporting date.

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2018 RMB'000	2017 RMB'000
Revenue recognized during the year that was included in the contract liabilities balance at the beginning of the year		
— Advance from customers	21,804	3.003
— Game copyrights	4,371	75
— Game revenue derived from game players	48,935	89,004
	75,110	92,082

6 Other income

	2018 RMB'000	2017 RMB'000
Government grants	13,192	14,491
Value added tax ("VAT") refunds	5,378	6,870
Others	519	—
	19,089	21,361

There are no unfulfilled conditions or contingencies related to the above government grants and VAT refunds.

7 Other gains, net

	2018 RMB'000	2017 RMB'000
Gains on financial assets at fair value through profit or loss (Note 22)	8,639	2,576
Impairment loss on available-for-sales financial assets	—	(1,000)
Gain on partial disposal of an available-for-sales financial assets	—	11,777
Gains/(losses) on disposal of property, plant and equipment	209	(112)
Foreign exchange gains/(losses), net	4,754	(8,151)
Others	3,684	170
	17,286	5,260

8 Expenses by nature

	2018 RMB'000	2017 RMB'000
Employee benefit expense (Note 9)	105,398	83,233
Share-based compensation (Notes 9 and 28)	35,632	—
Promotion and advertising expenses	42,492	35,658
Utilities and office expenses	12,392	12,654
Outsourced technical services	26,941	10,028
Depreciation of property, plant and equipment (Note 15)	2,881	5,317
Amortization of intangible assets (Note 17)	1,815	2,107
Amortization of land use rights (Note 16)	1,283	1,283
Bandwidth and servers custody fee	5,815	4,499
Auditors' remuneration		
— Audit services	4,569	49
— Audit-related services	1,200	—
Listing expenses	35,265	6,116
Other professional consulting fees	11,800	3,161
Impairment on prepayment for technology services	24,276	—
Travelling and entertainment expenses	4,052	5,867
Tax and levies	1,830	1,676
Others	3,628	4,064
	321,269	175,712

9 Employee benefit expense

	2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	81,444	63,191
Other social security costs, housing fund and other employee benefits	16,389	14,345
Pension costs — defined contribution plans	7,565	5,697
Share-based compensation (Note 28)	35,632	—
	141,030	83,233

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended December 31, 2018 include one (2017: one) director whose emoluments are reflected in analysis shown in note (b) below. The emoluments payable to the remaining four (2017: four) individuals for each of the year ended December 31, 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
Basic salaries	2,330	2,168
Pension costs — defined contribution plans	187	80
Other social security costs, housing fund and other employee benefits	165	74
Share-based compensation	18,428	—
Total	21,110	2,322

(b) The emoluments fell within the following band:

	Number of individuals	
	2018	2017
HK$500,001 to HK$1,000,000	—	4
HK$2,000,001 to HK$2,500,000	1	—
HK$2,500,001 to HK$3,000,000	1	—
HK$4,500,001 to HK$5,000,000	1	—
HK$6,500,001 to HK$7,000,000	1	—
	4	4

10 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

The remuneration of each director for the year ended December 31, 2018 is set out as below:

	Fee RMB'000	Salary RMB'000	Share-based compensations RMB'000	Pension costs — defined contribution cost RMB'000	Other social security costs, housing fund and other employee benefits RMB'000	Total RMB'000
Year ended December 31, 2018						
Executive directors						
Meng Shuqi(1)	—	600	—	17	14	631
Hu Min(2)	—	300	—	38	28	366
Wang Chendong(3)	—	518	5,801	37	35	6,121
Yang Cheng(2)	—	143	—	10	9	162
Non-executive directors						
Li Shimeng(4)	42	—	—	—	—	42
Yan Kaidan(4)	42	—	—	—	—	42
Independent non-executive directors						
Ho Chit(5)	116	—	—	—	—	116
Xue Jun(6)	11	—	—	—	—	11
Liu Yunli(5)	127	—	—	—	—	127
Wu Xiaoguang(5)	127	—	—	—	—	127
Total	465	1,561	5,801	102	86	8,015
Year ended December 31, 2017						
Executive directors						
Meng Shuqi(1)	416	—	—	17	14	447
Hu Min(2)	233	—	—	17	14	264
Wang Chendong(3)	540	—	—	34	37	611
Total	1,189	—	—	68	65	1,322

Notes:

(1) Mr. Meng Shuqi is also the chief executive of the Group and was appointed as the Company's executive director on September 6, 2017.

(2) Mr. Hu Min and Mr. Yang Cheng were appointed as the Company's executive directors on March 6, 2018 and October 29, 2018, respectively.

10 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (continued)

Notes: (continued)

(3) Mr. Wang Chendong was appointed as the Company's executive directors on March 6, 2018, and resigned from the Company's executive director on December 14, 2018 but remains as an employee of the Group.

(4) Mr. Li Shimeng and Mr. Yan Kaidan were appointed as the Company's non-executive director on March 6, 2018.

(5) Mr. Ho Chit, Mr. Liu Yunli and Mr. Wu Xiaoguang were appointed as the Company's independent non-executive director on June 23, 2018. Mr. Ho Chit resigned as the Company's independent non-executive director on December 14, 2018.

(6) Mr. Xue Jun were appointed as the Company's independent non-executive director on December 14, 2018.

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the companies comprising the Group.

No directors waived any emolument during 2018.

No director fee were paid to these directors in their capacity as directors of the Company or the companies comprising the Group.

No emoluments were paid by the Company or the companies comprising the Group as an inducement to join the Company or the companies comprising the Group, or as compensation for loss of office during 2018.

(i) Director's retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during 2018.

(ii) Consideration provided to third parties for making available director's services

During 2018, the Company did not pay consideration to any third parties for making available directors' services.

(iii) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporates by and controlled entities with such directors

Save as disclosed in Note 34 (d), there is no loans, quasi-loans and other dealing arrangement in favor of directors, or controlled body corporates and connected entities of such directors during 2018.

(iv) Directors' material interest in transactions, arrangements or contracts

There is no significant transactions, arrangements and contracts in relation to the Group's business in which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during 2018.

11 Finance costs, net

	2018 RMB'000	2017 RMB'000
Finance income		
Interest income on restricted bank deposits	3,573	5,924
Others	320	343
	3,893	6,267
Finance costs		
Interest expenses on bank borrowing	(4,857)	(6,401)
Others	(643)	(880)
	(5,500)	(7,281)
Net finance costs, net	(1,607)	(1,014)

12 Income tax expense

The income tax expense of the Group for the years ended December 31, 2018 and 2017 is analysed as follows:

	2018 RMB'000	2017 RMB'000
Current income tax	4,221	20,601
Deferred income tax	1,790	1,463
	6,011	22,064

(a) Cayman Islands and BVI 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 exempted from Cayman Islands income tax. The Group entities established under the International Business Companies Acts of BVI are exempted from BVI income taxes.

(b) Hong Kong Income Tax

For the years ended December 31, 2018 and 2017, Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits.

12 Income tax expense (continued)

(c) PRC Enterprise Income Tax ("EIT")

The income tax provision of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits, except for stated below.

Shenzhen 7Road was qualified as "High and New Technology Enterprises" ("HNTEs") for a 3-year period under the EIT Law in 2014 and renewed the qualification to another 3-year period on October 31, 2017. Therefore, Shenzhen 7Road is entitled to a preferential income tax rate of 15%. In addition, the directors of the Company considered Shenzhen 7Road fulfilled the criteria and filed with tax authorities the relevant record as a Key Software Enterprise ("KSE") for the year ended December 31, 2017, which enabled Shenzhen 7Road a preferential income tax rate of 10%. Accordingly, PRC EIT for Shenzhen 7Road for the years ended December 31, 2018 and 2017 was provided for at a tax rate of 15% and 10%, respectively.

Qianhai Huanjing was accredited as a "software enterprise" in a special economic development zone under relevant PRC law, and is entitled to a preferential income tax rate of 15%. In addition, Qianhai Huanjing considered it fulfilled the criteria as a KSE for the year ended December 31, 2018 according to the relevant announcement and circular issued by relevant government authorities. Therefore, the directors of the Company considered that Qianhai Huanjing is entitled to a preferential income tax rate of 10% for KSE and PRC EIT for Qianhai Huanjing for the years ended December 31, 2018 and 2017 was provided for at a tax rate of 10% and 15%, respectively.

Huoerguosi 7Road was accredited as a "software enterprise" in a special economic development zone under relevant PRC laws and regulations in 2016 and is entitled to a tax concession of exemption from EIT for five years, commencing either from the first year of commercial operations or from the first year of profitable operation after offsetting tax losses generating from prior years, whichever is later.

(d) PRC Withholding Tax ("WHT")

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

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the PRC statutory income tax rate as follows:

	2018 RMB'000	2017 RMB'000
Profit before tax	**(92,020)**	279,245
Tax calculated at PRC statutory tax rate of 25%	(23,005)	69,811
Tax effects of:		
Effects of preferential income tax benefits of certain subsidiaries	(10,056)	(40,814)
Effects of different tax rates applicable to different subsidiaries of the Group	45,337	(1,214)
Additional deduction for research and development expenses	(7,642)	(3,334)
Expenses not deductible for tax purposes	6,882	170
Utilisation of previously unrecognized tax losses	—	(2,555)
Re-measurement of deferred tax due to change in the applicable tax rate	(5,407)	—
Income not subject to income tax	(98)	—
Income tax expenses	**6,011**	22,064

13 (Losses)/earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2018 RMB'000	2017 RMB'000
(Loss)/profit attributable to owners of the Company	(98,031)	257,181
Weighted average number of ordinary shares in issue (in thousands)	2,126,097	1,821,068
Basic (losses)/earnings per share for profit attributable to owners of the Company	(0.0461)	0.1412

Note: The weighted average number of ordinary shares for the purposes of basic earnings per share for the years ended December 31, 2018 and 2017 has been retrospectively adjusted for (i) the effects of each of the ordinary shares of the Company subdivided into 20 ordinary shares which took place on June 23, 2018 ("Subdivision") and (ii) 8,946,600 ordinary shares, before Subdivision, (equivalent to 178,932,000 ordinary shares after Subdivision) of the Company contributed by a Shareholder to the RSU Scheme which took place on March 31, 2018.

(b) Diluted

Diluted losses/earnings per share is the same as the basic losses/earnings per share as there were no potential dilutive ordinary shares outstanding during the year.

14 Dividends

The directors do not recommend the payment of final dividend.

15 Property, plant and equipment

	Buildings RMB'000	Servers and other equipment RMB'000	Furniture & leasehold improve-ments RMB'000	Vehicles RMB'000	Con-struction in progress RMB'000	Total RMB'000
Year ended December 31, 2018						
Opening net book amount	12,654	2,698	1,340	1,674	1,529	19,895
Additions	–	401	1,533	–	–	1,934
Disposal	–	(244)	(19)	–	–	(263)
Depreciation charge (Note 8)	(417)	(817)	(1,050)	(597)	–	(2,881)
Closing net book amount	12,237	2,038	1,804	1,077	1,529	18,685
At December 31, 2018						
Cost	13,175	36,649	23,620	3,142	1,529	78,115
Accumulated depreciation	(938)	(34,611)	(21,816)	(2,065)	–	(59,430)
Net book amount	12,237	2,038	1,804	1,077	1,529	18,685
At January 1, 2017						
Cost	13,175	41,725	22,116	2,309	–	79,325
Accumulated depreciation	(104)	(35,667)	(19,976)	(986)	–	(56,733)
Net book amount	13,071	6,058	2,140	1,323	–	22,592
Year ended December 31, 2017						
Opening net book amount	13,071	6,058	2,140	1,323	–	22,592
Additions	–	405	–	833	1,529	2,767
Disposal	–	(147)	–	–	–	(147)
Depreciation charge (Note 8)	(417)	(3,618)	(800)	(482)	–	(5,317)
Closing net book amount	12,654	2,698	1,340	1,674	1,529	19,895
At December 31, 2017						
Cost	13,175	39,635	22,116	3,142	1,529	79,597
Accumulated depreciation	(521)	(36,937)	(20,776)	(1,468)	–	(59,702)
Net book amount	12,654	2,698	1,340	1,674	1,529	19,895

15 Property, plant and equipment (continued)

Depreciation expenses have been charged to the consolidated statement of profit or loss as follows:

	2018 RMB'000	2017 RMB'000
Cost of revenue	846	3,100
Research and development expenses	846	688
Administration expenses	1,186	1,523
Selling and marketing expenses	3	6
	2,881	5,317

Note: As at December 31, 2018, the Group's buildings of RMB12,237,000 (2017: RMB12,654,000) together with the related land use rights of RMB71,773,000 (2017: RMB73,056,000) (Note 16) were pledged as collateral for one of the Group's bank borrowings of RMB47,572,000 (2017: RMB53,711,000) (Note 29).

16 Land use rights

	2018 RMB'000	2017 RMB'000
At January 1		
Cost	74,660	74,660
Accumulated amortization	(1,604)	(321)
Net book amount	73,056	74,339
Year ended December 31		
Opening net book amount	73,056	74,339
Amortization charge (note (a))	(1,283)	(1,283)
Closing net book amount	71,773	73,056
At December 31		
Cost	74,660	74,660
Accumulated amortization	(2,887)	(1,604)
Net book amount	71,773	73,056

Notes:

(a) The Group's land use rights are held under leases for the period of over 50 years located in the PRC.

(b) Amortization on land use rights of the Group was charged to the administrative expenses.

17 Intangible assets

	Goodwill RMB'000	Game copyrights RMB'000	Computer software licenses RMB'000	Domain name RMB'000	Total RMB'000
Year ended December 31, 2018					
Opening net book amount	26,031	—	2,396	2,480	30,907
Additions	—	—	491	—	491
Amortization charge (Note 8)	—	—	(1,489)	(326)	(1,815)
Closing net book amount	26,031	—	1,398	2,154	29,583
At December 31, 2018					
Cost	26,031	8,189	7,212	3,253	44,685
Accumulated amortization	—	(8,189)	(5,814)	(1,099)	(15,102)
Net book amount	26,031	—	1,398	2,154	29,583
At January 1, 2017					
Cost	26,031	8,189	6,558	3,253	44,031
Accumulated amortization	—	(7,916)	(2,816)	(448)	(11,180)
Net book amount	26,031	273	3,742	2,805	32,851
Year ended December 31, 2017					
Opening net book amount	26,031	273	3,742	2,805	32,851
Additions	—	—	163	—	163
Amortization charge (Note 8)	—	(273)	(1,509)	(325)	(2,107)
Closing net book amount	26,031	—	2,396	2,480	30,907
At December 31, 2017					
Cost	26,031	8,189	6,721	3,253	44,194
Accumulated amortization	—	(8,189)	(4,325)	(773)	(13,287)
Net book amount	26,031	—	2,396	2,480	30,907

17 Intangible assets (continued)

Amortization charges were expensed in the following categories in the consolidated statements of profit or loss:

	2018 RMB'000	2017 RMB'000
Cost of revenue	336	327
Research and development expenses	1,460	1,765
Administration expenses	19	15
	1,815	2,107

Impairment tests for goodwill

The goodwill of Group amounted to RMB26,031,000 was attributable to the acquisition of Shenzhen Qianqi, an online game developer. After the acquisition, the operation and work force of Shenzhen Qianqi have been fully integrated into the Group. As a result, the goodwill is regarded as attributable to the sole reportable segment of the Group, i.e. the Group as a whole.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an determination of the cash-generating units ("CGU") to which the goodwill is allocated, i.e. the Group as a whole. The recoverable amount is determined using fair value less of disposal of which represented the fair value of the Group as indicated by the share price of the Company as at December 31, 2018.

According to the above assessment, the recoverable amount of the CGU is significantly higher than the carrying amounts of the CGU including goodwill and no impairment is required.

18 Investments in associates

	2018 RMB'000	2017 RMB'000
At beginning of the year	175,268	201,090
Additions	—	999
Shares of results	(1,034)	313
Share of other comprehensive (loss)/income	(386)	866
Dilution loss	—	(13,612)
Disposal of an associate	(888)	(3,000)
Deemed disposal of an associate	(182,744)	—
Currency translation differences	9,784	(11,388)
At end of the year	—	175,268

Set out below are the associates of the Group as at December 31, 2018 and 2017. The associates as listed below have share capital consisting solely of ordinary shares.

18 Investments in associates (continued)

Name of associates	Place of incorporation/ establishment	Principal activities and place of operation	Equity interest held as at December 31, 2018	2017	Note
Digital Hollywood Interactive Limited Co., Ltd. ("Digital Hollywood")	Cayman Islands	Development, operations and publishing of web-based games and mobile games	Not applicable	15.52%	(a)
Shenzhen Xiaotudou Cultural and Communication Co., Ltd. ("Shenzhen Xiaotudou")	The PRC	Designation of advertisement and animation	—	30%	(b)

Notes:

(a) On August 26, 2015, the Group entered into an investment agreement with shareholders of Digital Hollywood and pursuant to which the Group purchased 23% equity interests in Digital Hollywood at a cash consideration of US$27,600,000. The Group has been entitled the right to appoint one director to Digital Hollywood thus the directors of the Company consider that the Group has significant influence on Digital Hollywood in its operational and financial decision-making processes, accordingly, the investment in Digital Hollywood was accounted for using equity accounting method.

On May 27, 2017, Digital Hollywood allotted and issued a total of 1,111,122 new shares to a trustee of its share option scheme at a nominal consideration of US$1,111,122 and the Group's equity interest in Digital Hollywood diluted to 20.7%.

On December 15, 2017, Digital Hollywood completed its initial public offering ("IPO") on the Main Board of the Stock Exchange. Digital Hollywood allotted and issued 500,000,000 new shares upon the IPO at an offer price of HK$0.63 per shares with net cash proceed of approximately HK$265 million. The Group's equity interest in Digital Hollywood further diluted to 15.52%.

The Group recognized a loss on dilution of interest in Digital Hollywood of RMB13,612,000 as a result of the aforesaid new shares issued by Digital Hollywood in the year ended December 31, 2017.

Despite that the Group's interest in Digital Hollywood diluted to 15.52% upon its IPO, the Group remained its ability to exercise significant influence in Digital Hollywood's operational and financial matters through the participation in its board of directors, thus the Group continued to account for its interest in Digital Hollywood as an associate.

On December 27, 2018, primarily due to the resignation of Mr. Meng Shuqi as the Group's representative, as a non-executive director of Digital Hollywood, the Group lost the significant influence on Digital Hollywood. Accordingly, the investment in it has been accounted for as financial assets at fair value through profit or loss since then. Accordingly, a deemed disposal loss of an investment in associate of RMB110,661,000, being the difference between the fair value of the retained interest in Digital Hollywood of RMB72,083,000 and the carrying amount of the investment in Digital Hollywood of RMB182,744,000, at the same date, was recognized in the consolidated statement of profit or loss.

(b) On June 12, 2018, the Group entered into an agreement with Shenzhen Longyou Tianxia Network Technology Co., Ltd. regarding the disposal of its shares in Shenzhen Xiaotudou Cultural Communication Co., Ltd. at a cash consideration of RMB999,000. The Group recognized a gain of RMB111,000 in relation to this disposal.

18 Investments in associates (continued)

Summarized financial information

Set out below are the summarized financial information of the significant associate of the Group, Digital Hollywood for the year ended December 31, 2017 which is accounted for using the equity method.

	2017 RMB'000
Summarized balance sheet	
Current assets	405,031
Non-current assets	98,453
Current liabilities	(89,671)
Non-current liabilities	(285)
Net Assets	413,528
Net assets attributable to the Group	69,405
Goodwill	104,898
Carrying amount attributable to the Group	174,303
Summarized statement of comprehensive income	
Revenue	193,324
Net Profit	1,507
Other comprehensive loss	3,763
Total comprehensive income	5,270

19 Financial instruments by category

	2018 RMB'000	2017 RMB'000
Assets as per balance sheet		
Available-for-sale financial assets (Note 20)	—	41,979
Financial assets at fair value through profit or loss (Note 22)	308,079	123,000
Financial assets at fair value through other comprehensive income (Note 21)	5,172	—
Loans and receivables:		
— Trade and other receivables (excluding prepayments) (Note 23 and 24)	116,688	134,120
— Restricted cash (Note 25(b))	3,885	165,058
— Cash and cash equivalents (Note 25(a))	286,017	130,186
	719,841	594,343
Liabilities as per balance sheet		
Financial liabilities at amortized cost:		
— Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payable) (Note 31)	25,337	47,882
— Borrowings (Note 29)	47,573	159,751
	72,910	207,633

20 Available-for-sale financial assets

	2018 RMB'000	2017 RMB'000
Unlisted equity investments	—	41,979

Movements in available-for-sale financial assets during the year ended December 31, 2017 and 2018 are as follows:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	41,979	10,339
Adoption of IFRS 9	(41,979)	—
Addition	—	26,200
Disposal	—	(12,500)
Fair value change	—	18,940
Impairment (Note 7)	—	(1,000)
At the end of year	—	41,979

21 Financial assets at fair value through other comprehensive income

	2018 RMB'000	2017 RMB'000
Unlisted equity investments	5,172	—

Movements in financial assets at fair value through other comprehensive income during the year ended December 31, 2017 and 2018 are as follows:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	—	—
Adoption of IFRS 9	30,150	—
Disposal (note)	(26,150)	—
Fair value change	1,172	—
At the end of year	5,172	—

Note: On June 12, 2018, the Group disposed certain equity investments amounted to RMB26,150,000 at an aggregate considerations of RMB26,150,000 to Shenzhen Longyou Tianxia Network Technology Co., Ltd.

22 Financial assets at fair value through profit or loss

	2018 RMB'000	2017 RMB'000
Current		
Investments in wealth management products (note)	44,836	43,000
Listed shares	124,383	—
	169,219	43,000
Non-current		
Unlisted investment	138,860	80,000
	138,860	80,000
	308,079	123,000

Note: The Group purchased certain wealth management products issued by certain major commercial banks in the PRC. The Group has classified its investments in such wealth management products as financial assets at fair value through profit or loss. Fair values of these investments were estimated based on expected return of each wealth management products held by the Group.

Movements in financial assets at fair value through profit or loss during the years ended December 31, 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	123,000	123,587
Adoption of IFRS 9	11,829	—
Transfer from investment in an associate (Note 18(a))	72,083	—
Addition	749,220	247,292
Disposal	(656,692)	(250,455)
Realized and unrealized gains (Note 7)	8,639	2,576
At the end of year	308,079	123,000
Unrealized gains recognized in statement of profit or loss included in the above balance	8,372	—

23 Prepayment and other receivables

	2018 RMB'000	2017 RMB'000
Included in non-current assets		
Rented deposits	1,740	1,554
Prepayment for technology services	4,244	6,294
Advance to third party	6,480	—
Advance to related party	2,687	—
Prepayment for investment (note a)	369,146	—
Less: provision for impairment	(176)	—
	384,121	7,848
Included in current assets		
Housing loans to employee	2,037	5,349
Advance granted to third parties (note b)	12,673	800
Recoverable value-added tax	6,737	6,376
Interest receivable	9	13,852
Prepayment for listing expenses	—	4,250
Prepayment to game developers	4,808	4,808
Prepayment for technology services (note c)	24,276	—
Receivable from refund for undelivered technology services	3,000	—
Prepayment for copyright loyalty	2,044	—
Prepayment for advertisement and marketing (note d)	92,392	3,116
Prepayment for advisory services	6,478	—
Receivable from disposal of investments (note e)	20,299	—
Income tax recoverable	2,529	—
Others	2,488	3,563
Less: provision for impairment (note e)	(47,985)	—
	131,785	42,114

23 Prepayment and other receivables (continued)

Notes:

(a) On December 12, 2018, the Group entered into a letter of intent ("LOI") with Ningbo Jingxuan Investment Center ("Ningbo Jingxuan"), a limited partnership established in the PRC, for acquisition of the entire equity in an online game company, Shanghai Xinla Networks Technology Co., Ltd. ("Shanghai Xinla"). According to the LOI, a refundable down payments comprising RMB80,000,000 and HK$330,000,000 were paid to the designated recipient of the Ningbo Jingxuan and secured by 49% equity interest in Shanghai Xinla.

(b) This represents for the remaining balance of advance to third parties, most of which was collected in February 2019.

(c) On February 26, 2018, the Group entered into a game development agreement with Shenzhen Chuangyu Technology Co., Ltd. ("Shenzhen Chuangyu") of which Shenzhen Chuangyu is responsible to develop a mobile game according to the Group's instruction. However, due to the significant delay in the publishing schedule and certain technical issues, the Group expects that the recoverability of this prepayment through the game publishing is uncertain. Accordingly, a full impairment against the balance of this prepayment of RMB24,276,000 was provided.

(d) During the year ended December 31, 2018, the Group entered into advertising and promotion agreements with various advertising agencies, they are independence third parties, for promoting the online and mobile games of the Group. Certain prepayments were paid pursuant to these agreements. After the reporting period, one of the advertising and promotion agreements was terminated and the related prepayment of RMB24,286,000 was returned to the Group.

(e) On June 12, 2018, the Group entered into a series of agreements with a third-party regarding the disposal of certain equity investments of the Group at an aggregate cash considerations of RMB27,149,000. However, the considerations to the extent of RMB20,299,000 was past due as at December 31, 2018 due to the financial difficulty of the counterparty and accordingly, a full impairment against the remaining balance amounted to RMB20,299,000 was provided for as an incurred loss.

Except for incurred losses, the Group did not identify any significant increase in credit risk for loans to third party, receivables from government and others. Accordingly, the Group evaluated 12-month period expected credit losses (Note 3.1 (b)).

24 Trade receivables

	2018 RMB'000	2017 RMB'000
Trade receivables	85,012	102,626
Less: provision for impairment	(3,465)	(1,259)
Trade receivables — net	81,547	101,367

As at December 31, 2018 and 2017, the Group's trade receivables were denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
RMB	27,374	47,223
US$	55,493	53,807
Others	2,145	1,596
	85,012	102,626

24 Trade receivables (continued)

The Group allows a credit period of 60-120 days to its customers. An ageing analysis of trade receivables based on invoice date is as follows:

	2018 RMB'000	2017 RMB'000
Up to 3 months	26,122	57,799
3 to 6 months	11,707	30,215
6 months to 1 year	37,243	10,790
1 to 2 years	8,423	2,390
Over 2 years	1,517	1,432
	85,012	102,626

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

	2018 RMB'000	2017 RMB'000
At beginning of the year	(1,259)	(1,259)
Provision for impairment	(2,323)	(1,870)
Receivables written off during the year as uncollectible	117	1,870
At end of the year	(3,465)	(1,259)

The creation and release of provision for impaired receivables have been included in 'Net impairment losses on financial assets' in the statement of profit or loss.

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables. The Group does not hold any collateral as security.

25 Bank balances and cash

(a) Cash and cash equivalents

	2018 RMB'000	2017 RMB'000
Cash at bank and on hand	286,017	130,186

Cash at banks earns interest at floating rates based on daily bank deposit rates. The conversion of the RMB denominated balances maintained in the PRC into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

25 Bank balances and cash (continued)

(b) Restricted cash

	2018 RMB'000	2017 RMB'000
Current		
Restricted deposits as reserve for serving of debt for loans (Note 29)	—	162,330
Restricted dividend payable account	1,703	—
	1,703	162,330
Non-Current		
Restricted deposits as guarantee for government grants	2,182	2,728
	2,182	2,728
	3,885	165,058

26 Share capital and share premium

	Number of shares RMB'000	Share capital RMB'000	Combined capital RMB'000	Share premium RMB'000	Total RMB'000
As at January 1, 2017	—	—	10,000	—	10,000
Issuance of ordinary shares for Reorganization	63,729,400	42	—	—	42
As at December 31, 2017	63,729,400	42	10,000	—	10,042
As at January 1, 2018 (note a)	63,729,400	42	10,000	—	10,042
Issuance of ordinary shares for Reorganization (note b)	36,270,600	18	(10,000)	3,058,050	3,048,068
Share Subdivision	1,900,000,000	—	—	—	—
Issuance of ordinary shares upon IPO (note e)	666,680,000	28	—	852,529	852,557
Share issuance cost	—	—	—	(55,837)	(55,837)
As at December 31, 2018	2,666,680,000	88	—	3,854,742	3,854,830

26 Share capital and share premium (continued)

Notes:

(a) On September 6, 2017, the Company was incorporated in the Cayman Islands with limited liability and authorized share capital of US$50,000, divided into 500,000,000 shares of a par value of US$0.0001 each. 1 ordinary share was allotted and issued for cash at par to the initial subscriber of the Company and was subsequently transferred to Ben Holdings. On the same day, the Company further allotted and issued 9,999 ordinary shares for cash at par to Ben Holdings and credited as fully paid. These shares rank pari passu in all respects with the share in issue.

(b) On November 17, 2017, February 28, 2018, March 12, 2018 and May 4, 2018, the Company allotted and issued an aggregate of 99,990,000 ordinary shares for cash at par to the offshore investment holding companies pursuant to the Offshore Shareholding Agreement for the purpose of Reorganization. The ordinary shares for Reorganization were credited as fully paid at the amount of the fair value of the Group's Business upon the completion of Reorganization.

(c) On March 6, 2018, a RSU Scheme was approved and adopted by the Company. An aggregate of 8,946,600 ordinary shares allotted and issued to ESOP 1 Holdings and ESOP 2 Holdings are ordinary shares originally planned to be allotted to Mr. Liu Jing, for the purpose of Reorganization, in accordance with his shareholding percentage in Shenzhen 7Road. Mr. Liu Jing agreed to contribute these shares to ESOP 1 Holdings and ESOP 2 Holdings for the purpose of establishment of the RSU Scheme.

(d) On June 23, 2018, the shareholders resolved, among other things subject to the Global Offering becoming unconditional, that all the issued and unissued ordinary share of US$0.0001 par value each of our Company will be subdivided into 20 Shares of US$0.000005 par value each such that the authorized share capital of our Company shall be US$50,000 divided into 10,000,000,000 Shares of par value US$0.000005 each and the issued share capital shall be US$10,000 divided into 2,000,000,000 Shares of US$0.000005 par value each.

(e) On July 18, 2018, the Company issued 666,680,000 ordinary shares of US$0.000005 each at an offer price of HK$1.50 per share through the global offering for an aggregated gross proceeds of HK$1,000,020,000 (in equivalent to approximately RMB852,557,000). These shares rank pari passu in all respects with the shares in issue.

(f) Share issuance cost primarily included underwriting commissions, lawyer's fees, reporting accountant's fee and other related costs. Incremental costs that were directly attributable to the issue of the new ordinary shares amounting to RMB55,055,000 was treated as a deduction from share premium. Other share issuance costs which were not directly attributable to the issue of the new ordinary shares amounting to RMB36,052,000 were recognized as expenses in the consolidated statement of profit or loss.

27 Other reserves

	Shares held for RSU Scheme RMB'000	Statutory surplus reserve RMB'000	Shareholder contribution RMB'000	Capital reserve RMB'000	Share-based compen-sations RMB'000	Currency translation differences RMB'000	Investment in associates RMB'000	Financial assets at fair value through other compre-hensive income RMB'000	Available-for-sale financial assets fair value reserve RMB'000	Total RMB'000
At January 1, 2018	–	5,000	–	15,700	–	844	(129)	–	8,359	29,774
Adjustment of adoption of IFRS 9, net of tax	–	–	–	–	–	–	–	–	(8,359)	(8,359)
Share-based compensations reserve (Note 9, 28)	–	–	–	–	35,632	–	–	–	–	35,632
Share of other comprehensive income of associates	–	–	–	–	–	–	129	–	–	129
Issuance of shares for the re-organization	–	–	–	(3,048,050)	–	–	–	–	–	(3,048,050)
Shares held for Restricted Share Units Scheme	(273,592)	–	273,592	–	–	–	–	–	–	–
Fair value changes on financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–	879	–	879
Currency translation differences	–	–	–	–	–	20,769	–	–	–	20,769
At December 31, 2018	(273,592)	5,000	273,592	(3,032,350)	35,632	21,613	–	879	–	(2,969,226)
At January 1, 2017	–	5,000	–	15,700	–	4,061	(995)	–	2,986	26,752
Share of other comprehensive income of associates	–	–	–	–	–	–	866	–	–	866
Currency translation differences	–	–	–	–	–	(3,217)	–	–	–	(3,217)
Fair value change in available-for-sale financial assets (Notes 20)	–	–	–	–	–	–	–	–	5,373	5,373
At December 31, 2017	–	5,000	–	15,700	–	844	(129)	–	8,359	29,774

28 Equity-settled share-based compensation

On March 6, 2018, to incentivize Directors, senior management and employees, a RSU Scheme was approved and adopted by the Company. ESOP 1 Holdings and ESOP 2 Holdings were incorporated to hold 8,946,600 ordinary shares of the Company (in equivalent to 178,932,000 ordinary shares upon the completion of the Share Subdivision and Global Offering), which was contributed by a shareholder. ESOP 1 Holdings and ESOP 2 Holdings were consolidated by the Company as to the Company is able to execute power over the control and management over ESOP 1 Holdings and ESOP 2 Holdings. These shares are considered treasury shares held for the RSU Scheme indirectly by the Company.

On March 31, 2018, in exchange for employee services to the Group, 5,040,000 RSUs (equivalent to 100,800,000 ordinary shares of the Company) were granted to certain eligible persons selected by the Board of Directors. Under the terms of the grant letter, the RSUs shall be vested as to 30%, 30% and 40% on March 31, 2019, March 31, 2020 and March 31, 2021, respectively, of which certain designated grantees also required to fulfil certain key performance index.

As the Group received the benefits associated with the services of the eligible persons, the fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed is determined by the fair value of the restricted shares granted less the subscription cost, if any, taking into consideration of forfeiture rate, and amortized over the different vesting periods of each grant with a credit recognized in equity as the equity-settled share based compensation reserve.

As a private company with no quoted market price of the Company's equity instruments at the date of grant, the Company needs to estimate the fair value of its equity interest at the grant date. The discounted cash flow method under the income approach has been applied in the determination of the fair value of the equity interest of the Company. The discounted cash flow derived by management considered the Group's future business plan, specific business and financial risks, the stage of development of the Group's operations and economic and competitive elements affecting the Group's business, industry and market. As at March 31, 2018, the fair value of each RSU was valued at RMB27.6.

Movement of the RSU Scheme for the year ended December 31, 2018 is as follows:

	2018
At January 1, 2018	—
Granted during the year	100,800,000
Forfeited	(11,975,000)
At December 31, 2018	88,825,000

Note: On March 31, 2018, 5,040,000 RSUs were granted to certain eligible employees of the Group which represented 100,800,000 ordinary shares of the Company upon the completion of the Share Subdivision and Global Offering of the Company.

28 Equity-settled share-based compensation (continued)

For the year ended December 31, 2018, expenses arising from the share-based compensation have been charged to the consolidated statement of profit or loss as follows:

	Year ended December 31, 2018 RMB'000
Cost of revenue	2,619
General and administrative expenses	23,219
Research and development expenses	9,794
	35,632

29 Borrowings

	2018 RMB'000	2017 RMB'000
Secured bank borrowings		
— RMB loan (note a)	47,573	53,711
— US$ loan (note b)	—	106,040
	47,573	159,751

Notes:

(a) In September, 2016, the Group received a loan from a bank of RMB61,600,000 at an interest rate of SHIBOR basic loan rate plus 1.09% per annum. The borrowing was secured by certain property, plant and equipment and land use rights of the Group.

(b) According to the facility agreement with a bank signed in August 2015, the Group was provided with a total facility amount of US$27,600,000 for a term of 3 years at an interest rate of LIBOR plus 1.55%. As at December 31, 2018, the borrowing was secured by the restricted bank deposits of the Group to the extent of RMB162,330,000. The borrowing was fully repaid in July 2018.

At December 31, 2018 and 2017, the Group's borrowings were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	6,138	112,178
1–2 years	6,138	6,138
2–5 years	18,414	18,415
Over 5 years	16,883	23,020
	47,573	159,751

At December 31, 2018, the carry amounts of the Group's borrowings approximately fair values.

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate.

30 Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2018 RMB'000	2017 RMB'000
Deferred tax assets:		
— to be recovered after more than 12 months	3,944	559
— to be recovered within 12 months	10,897	5,767
	14,841	6,326
Deferred tax liabilities:		
— to be recovered after more than 12 months	(8,746)	(2,785)
— to be recovered within 12 months	(4,637)	—
	(13,383)	(2,785)

The movements in the deferred income tax assets accounts are as follows:

	Contract liabilities RMB'000	Impairments RMB'000	Tax losses RMB'000	Total RMB'000
At January 1, 2018	5,890	186	250	6,326
Credited to statement of profit or loss	(612)	9,377	(250)	8,515
At December 31, 2018	5,278	9,563	—	14,841
At January 1, 2017	6,842	947	—	7,789
(Charged)/credited to statement of profit or loss	(952)	(761)	250	(1,463)
At December 31, 2017	5,890	186	250	6,326

30 Deferred income tax (continued)

The movements in the deferred income tax liability accounts are as follows:

	Fair value change RMB'000
At January 1, 2018	**(2,785)**
Charged to other comprehensive income	**(293)**
Charged to profit and loss	**(10,305)**
At December 31, 2018	**(13,383)**
At January 1, 2017	(995)
Charged to other comprehensive income	(1,790)
At December 31, 2017	(2,785)

Pursuant to the relevant PRC corporate income tax rules and regulations, withholding tax is imposed on dividends declared in respect of profits earned by the Company's PRC subsidiaries when actual payment of dividends is made. No withholding tax had been provided for the retained earnings of approximately RMB286,653,000 (2017: RMB258,848,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of the Group's domestic and overseas funding requirements.

31 Trade and other payables

	2018 RMB'000	2017 RMB'000
Trade payables	**7,289**	7,384
Payroll liabilities	**10,011**	6,505
Other tax payables	**4,796**	5,424
Interest payables	**—**	85
Dividend payables	**1,411**	38,616
Government grants	**2,174**	2,728
Accrued expenses	**4,397**	84
Listing expense	**10,214**	—
Others	**2,026**	1,713
	42,318	62,539

31 Trade and other payables (continued)

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

	2018 RMB'000	2017 RMB'000
0–30 days	2,417	3,109
31–60 days	1,302	4,117
61–90 days	599	61
91–180 days	600	97
181–365 days	2,371	—
	7,289	7,384

32 Cash flow information

(a) Cash (used in)/generated from operations

	2018 RMB'000	2017 RMB'000
(Loss)/profit before tax	(92,020)	279,245
Amortization of land use rights (Note 16)	1,283	1,283
Amortization of intangible assets (Note 17)	1,815	2,107
Depreciation of property, plant and equipment (Note 15)	2,881	5,317
Impairment (Note 18 and 21)	20,299	1,000
Equity-settled share-based compensation (Note 28)	35,632	—
(Gains)/losses on disposal of property, plant and equipment (Note 7)	(209)	112
Return on wealth management products (Note 22)	(267)	(2,576)
Fair value change in listed shares (Note 22)	2,958	—
Fair value change in financial asset at fair value through profit or loss (Note 22)	(11,330)	—
Finance costs, net (Note 11)	6,782	4,128
Dividend income from an investment in financial asset at fair value through profit or loss	(423)	—
Gain from debt exemption	(2,800)	—
Share of results from investments in associates (Note 18)	1,034	(313)
Deemed disposal loss of an investment in associate (Note 18)	110,550	—
Dilution loss (Note 18)	—	13,612
Gain on partial disposal on an available-for-sales financial asset (Note 7)	—	(11,777)
(Increase)/decrease in trade receivables, prepayment and other receivables (Note 23 and 24)	(71,067)	14,223
(Decrease)/increase in trade and other payables (Note 31)	(55,293)	72,669
Decrease in restricted cash (Note 25)	546	4,636
	(49,629)	383,666

32 Cash flow information (continued)

(b) Movements of financing activities

	At beginning of the year RMB'000	Cash flows RMB'000	Non-cash exchange movement RMB'000	Reclassification RMB'000	At end of the year RMB'000
Year ended December 31, 2018					
Bank borrowings, non-current	47,573	—	—	(6,138)	41,435
Bank borrowings, current	112,178	(108,854)	(3,324)	6,138	6,138
Total liabilities from financing activities	159,751	(108,854)	(3,324)	—	47,573
Year ended December 31, 2017					
Trade payables, other payables and receipt in advance	34,000	(34,000)	—	—	—
Bank borrowings, non-current	182,114	(22,365)	2	(112,178)	47,573
Bank borrowings, current	6,138	(6,138)	—	112,178	112,178
Total liabilities from financing activities	222,252	(62,503)	2	—	159,751

33 Commitments

(a) Operating lease commitment — as lessee

The Group leases offices under non-cancellable operating lease agreements. The lease terms are between 3 and 5 years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018 RMB'000	2017 RMB'000
No later than 1 year	7,925	7,341
1~2 years	3,939	7,659
2~5 years	3,850	7,700
	15,714	22,700

(b) Capital commitments

As at December 31, 2018 and 2017 significant capital expenditure in respect of purchase of property, plant and equipment contracted but not provided for amounted to RMB55,000 and RMB2,971,000.

34 Related party transactions

Save as disclosed in other notes, the following significant transactions were carried out between the Group and its related parties during 2018. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group during 2018.

Digital Hollywood	Associate prior to December 27, 2018
Ben 7Road Holdings Limited	Shareholder

(b) Significant transactions with related parties

In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms mutually agreed between the Group and the respective parties.

	2018 RMB'000	2017 RMB'000
Revenue:		
Digital Hollywood	28,064	26,440

(c) Year-end balances arising from revenue

	2017 RMB'000
Receivables from related parties:	
Digital Hollywood	20,216

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and interest-free. No provisions have been made against receivables from related parties.

(d) Loans to key management

(i) Other key management

	2018 RMB'000	2017 RMB'000
Movements during the years:		
At January 1,	120	148
Loans advanced during year	5,425	—
Loan repayments received	(5,500)	(28)
At December 31,	45	120

Loans to key management of the Group was unsecured, interest-free and repayable on demand.

34 Related party transactions (continued)

(e) Key management compensation

	2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	4,058	3,588
Other social security costs and housing benefits and other employee benefits	364	226
Pension costs — defined contribution plans	274	235
Share-based compensation	24,874	—
Total	29,570	4,049

(f) Loans to related party

	2018 RMB'000	2017 RMB'000
Movements during the years:		
At January 1,	—	—
Loans advanced	2,687	—
Loan repaid	—	—
At December 31,	2,687	—
Maximum outstanding during the year	2,687	—

35 Contingencies

The Group did not have any material contingent liabilities as at December 31, 2018 (2017: nil).

36 Balance sheet and reserve movement of the Company

	As at December 31, 2018 RMB'000	2017 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	3,072,361	—
	3,072,361	—
Current assets		
Prepayment and other receivables	1,179,129	42
Restricted cash	1,703	—
Cash and cash equivalents	79,173	—
	1,260,005	42
Total assets	4,332,366	42
Liabilities		
Current liabilities		
Trade payables, other payables	450,709	—
Total liabilities	450,709	—
Equity attributable to owners of the Company		
Share capital	88	42
Share premium	3,866,904	—
Reserves	19,658	—
Accumulated deficit	(4,993)	—
Total equity	3,881,657	42
Total equity and liabilities	4,332,366	42

The balance sheet of the Company was approved by the Board of Directors on March 29, 2019 and was signed on its behalf:

Meng Shuqi
Director

Yang Cheng
Director

36 Balance sheet and reserve movement of the Company (continued)

Note (a):

Shares held for RSU Scheme

Please refer to note 2.19 for the Group's accounting policy on shares held for RSU Scheme.

Note (b):

Reserve movement of the Company

	Accumulated deficit RMB'000	Other reserve RMB'000
At September 6, 2017	–	–
At December 31, 2017	–	–
At January 1, 2018	–	–
Profit for the year	66,700	–
Dividend	(71,693)	–
Currency translation differences	–	19,658
At December 31, 2018	(4,993)	19,658

37 Subsequent Events

In January 2019, the Group entered into two separate mobile game cooperation agreements with two mobile game publishers, both of them are independent third parties. Pursuant to the cooperation agreements, the Group agreed to finance the advertising and promotion of certain mobile games in overseas markets to the extent of US$25,000,000 and HK$100,000,000 ("**Cooperation Amounts**") for the period from March to December 2019 and the Group is entitled to share of the net revenue of a predetermined sharing ratio with a minimum guarantee of a return of 12% on the Cooperation Amounts. The Cooperation Amounts were paid by the Group in January 2019.

Appendix: Environmental, Social and Governance Report

ABOUT THE REPORT

This is the first environmental, social and governance ("**ESG**") report (the "**Report**") of the Group. The Report has disclosed our sustainable development policy and performance for the year ended December 31, 2018 (the "**Reporting Period**").

The scope of the Report covers the environmental and social performance of our headquarter in Shenzhen during the Reporting Period (unless otherwise stated). Relevant data from all regional offices have not been collected and disclosed, and therefore it has not been disclosed in the Report.

ABOUT US

We are a leading online game developer and operator in China with a global reach. Since our inception in 2008, we have engaged in the R&D, operation and licensing of a number of popular web games such as DDTank (彈彈堂) and Wartune (神曲).

VISION

Our vision is to become the respected leader in game industry.

OBJECTIVE

Our objective is to create unique and excellent boutique games worldwide.

OUR SUSTAINABLE DEVELOPMENT POLICY

We are a leading global online game developer and operator, with fast-growing in-house development capabilities for web games. In recent years, we have strategically expanded our business focuses to develop and launch mobile and H5 games by enhancing in-house development capabilities. This has also reflected our commitment to sustainable development. The Group is committed to ensuring business continuity, while sparing no effort in integrating environmental, social and management principles into our business administrative practices, which has produced a positive impact on the environment and the entire community.

As a responsible corporate citizen, we have formulated different policies on ESG and other issues to advance and manage matters relating to social responsibility, such as product responsibility, labour standards, environmental protection, health and safety, and supply chain management, so as to guide the Group and our business partners in putting sustainable development into practice. The relevant policies and measures and our sustainable development performance in all respects can be found in the corresponding sections of the Report.

STAKEHOLDER ENGAGEMENT

Our stakeholders mainly include employees, customers, suppliers, business partners, shareholders, the government and, in a broad sense, the community. We are firmly convinced that our sustainable development benefits from the unremitting support and trust of stakeholders. We listen to the voices of stakeholders and respond to their needs properly through a range of communication channels such as meetings, interviews, hotlines, official websites, WeChat public accounts, emails, so as to maintain a close and harmonious relationship with them and accordingly achieve long-term success.

SUPPLIER MANAGEMENT

We have been committing ourselves to be a high quality, environmental friendly and responsible game developer. We hope our suppliers and business partners to operate in a consistent manner and demonstrate best practices in connection with environmental and social matters.

We have established long-term relationships with numerous platforms, advertisers and suppliers around the world. We have stated in our internal policy that all personnel acting on our behalf must not receive rebates, gifts or favors of any kind which could influence a business decision. We also established supplier code of conduct indicating our expectations towards our suppliers and business partners in terms of anti-corruption, product and service quality, environmental protection and occupational health and safety. Such code of conduct has been circulated to our suppliers and business partners.

INTELLECTUAL PROPERTY

We are committed to protecting the achievements of our research and development team. To this end, we have established the Intellectual Property Management System under which standard work programmes are formulated in respect of applying for and managing intellectual property rights and strengthening the protection of intellectual property and this can effectively protect the intangible assets of the Group. The Group's intellectual property included copyrights, trademarks, patents, domain names, trade secrets and other rights conferred by (i) the Patent Law of the People's Republic of China, (ii) the Trademark Law of the People's Republic of China, (iii) the Copyright Law of the People's Republic of China, (iv) the Measures for the Administration of Internet Domain Names in China, (vi) the Law of the People's Republic of China Against Unfair Competition and other applicable laws and regulations as well as other rights relating to the protection of games, software, designs, new technologies, techniques, etc.

We attach great importance to confidentiality in protecting intellectual property. All interested parties are prohibited to divulge or provide relevant information to others in the process of product development and creation. In accordance with the "Measures for the Administration of Content Self-review by Internet Cultural Business Entities", our self-inspection system will ensure that all products comply with our intellectual property measures and relevant regulations.

PLAYER'S HEALTH AND SAFETY

We are highly concerned about the health and safety of our players. We deliver health and safety messages to our players in games and suggest taking rest after playing a certain period of time. We tend to encourage our players to enjoy our games rather than become addicted to them. The Group strictly complies with the Standards Regarding the Development of Anti-addiction System on Online Games of the State and actively guides adolescent users to cultivate a green habit of game playing.

HEALTH NETWORK

As a company with focus on the internet business, we have the responsibility to uphold and strengthen a healthy network culture.

For our game development business, we strictly abide by the Measures for the Administration of Online Games and other applicable laws and regulations. In view of this, we have built a professional content review team. There are professional content reviewers on the team responsible for close scrutiny to ensure that the game elements, including names, backgrounds, sound effects, maps, scenes, character designs, building designs, prop designs and features, do not contain any legally prohibited or improper wordings and materials, neither should any pornography, gambling, violence and abetment be promoted.

PROTECT PERSONAL DATA PRIVACY

We take privacy and confidentiality of our user's data, such as players' account details and payment information, seriously. No sensitive personal data (such as ID card or credit card information) are stored on our server. Our employees cannot access player's information without authorization.

In addition, we may subject to the threat of cyber attacks and the loss and leakage of data. To minimise these risks, we have adopted a series of data security measures, such as intrusion detection, firewalls access authorisation, password and data transmission encryption, so that data are stored at least in two different locations on our local internal server and remote cloud system and further backup is implemented in our disaster recovery system.

ADVERTISING

We ensure the compliance, accuracy and authenticity of all published materials, including press releases, labels, articles, and web contents, in accordance with the Advertising Law of the People's Republic of China.

OUR COMMITMENT TO EMPLOYEES

We hold a firm belief that our people are essential to the Group's development and success. Therefore, we attach great importance to talent acquisition by scouting for people passionate in game development and operation. Recruitment channels include internal referral, campus recruitment, online recruitment, talent market and head hunters. In the selection process, we adhere to the principle of fairness, openness and justice to the greatest extent. What we are mostly concerned with are candidates' competencies and qualifications, instead of their age, gender, physical condition, marital status, race, nationality and religion.

We hunger for creative, energetic and passionate talents to boost our game development. We also need technical and professional game cravers to keep improving our quality standards.

We conduct review regularly to ensure our Company complies with all relevant laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

Employee overview

As of December 31, 2018, we had 264 employees. Our employees remain young and the average age of our employees was about 29 years old. Male and female employees accounted for 73% and 27% of the total respectively.

The following table sets forth the number of our employees by function as of December 31, 2018:

Function	Number of Employees	% of total
R&D	220	83.3%
— Game R&D	186	70.4%
— Game operation	34	12.9%
Marketing and sales	–	–
General and administration	44	16.7%
Total	264	100%

Staff development and training

In addition to sourcing for talents, we also acknowledge the importance of nurturing them by offering abundant opportunities in development and training, in the hope that their talent can be fully unlocked, thereby benefit the Group's continual growth and success in return.

We have a sound performance management system under which regularly-scheduled comprehensive and timely appraisals of staff and an annual comprehensive performance evaluation are conducted. After the annual performance evaluation is conducted, employees must work with their line managers to set performance targets. We encourage line managers to communicate with their staff from time to time and give constructive feedbacks to help them grow.

Employees are given equal opportunities for promotion which is determined based on the results of their performance evaluation. The Group has also put in place promotion mechanisms for internal competition among employees. Employees may apply for competitive promotion provided that they meet the relevant years of service and performance requirements and that they have no records of misconduct and are in line with the Group's corporate culture and values. This will accordingly stimulate the initiative of excellent employees, conducive to selecting and cultivating talents.

Besides, recognising the significance of training such that we are able to catch up with the fast-growing internet industry and the everchanging market, we establish training platforms to train and nurture our employees.

We have four major programs in employee training: new employee training, high potential talent training, leadership training and professional skills upgrading.

- **New employee training**: In 2018, we have organized four training sessions for our new employees. The training sections include the introducing of our culture and product philosophy, business objectives, management system and team behavior norms. New employee training aims to help our new employees to integrate into our team and get familiar with their works.

- **High potential talent training**: High potential talent training aiming at employees with relatively high personal development potential. Through online course learning and offline business practice, communication and sharing, to improve the basic management ability and personal comprehensive quality of these employees. High potential talent training reserves talents for our future managements

- **Leadership training**: In 2018, external experts were invited for two leadership training sessions to improve our management's understanding of leadership. Meanwhile, management practices (such as quarterly business meetings, organizational atmosphere survey and reporting) were adopted to improve our management's personal leadership.

- **Professional skills upgrading**: In 2018, external industry experts were invited for four professional sharing and communicating sessions. We also organized our internal business experts for professional skills training and sharing for a total of 182 times.

Caring our talents

Being a technology-based enterprise, we understand that human capital is our foremost property. Therefore, we strive to attract and retain talents by granting them competitive remuneration packages and benefits, together with creating a harmonious working atmosphere through a wide range of staff activities and events.

Strictly abiding by applicable laws and regulations including The Labour Law of the PRC (《中華人民共和國勞動法》), The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), The Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Regulation on the Administration of Housing Accumulation Funds (《住房公積金管理條例》), we provide employees in the PRC with social insurances which cover endowment, unemployment, medical, maternity and work-related injury, and housing provident fund. All employees are granted bereavement leave, marital leave, medical leave and maternity leave. Other benefits include:

Traditional holiday, women‘s day and children‘s day welfare, marriage and birthday gifts, club activities, annual physical examination, staff movie-watching, afternoon tea breaks, meal and travel allowances.

Furthermore, we care about employees' work-life balance and organise an array of activities on a regular basis, for instance, themed birthday parties, clubs, sports activities and festive events. These activities can strengthen the bonding and create a harmonious relationship among employees and between the Group and employees.

We also care about employees' voices. We have set up a number of communication channels, ranging from meetings to progress reports to WeChat and to email. Every one of us is welcomed to express his/her views and concerns through these channels.

Highlight of staffs activities

1. *Annual Dinner*
2. *Festival activities*
3. *Sports club activities*
4. *Fun sports meeting*
5. *Outstanding staff outing*
6. *Friendship competition with other game companies*

Occupational Health and Safety

The Group is committed to providing employees with a safe, healthy and comfortable working environment. We plant and place large quantities of green plants throughout the office and they are regularly maintained. At the same time, smoking is strictly prohibited in open areas of the office premises, and a complete set of fire-fighting facilities that meet fire protection standards are placed at a prominent position. Clear guidelines for emergency exit routes are indicated in the office and fire inspections are regularly conducted to eliminate potential fire hazards. Strictly abiding by the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, the Group routinely uses different means of publicity to enhance the awareness of occupational diseases among employees, prevent and treat occupational diseases, and protect the health of employees and related rights and interests.

Aside from our endeavours in environmental safety, we pay greater attention to the health of our employees. The Group provides employees with annual body check and purchases for them critical illness plan and personal accident insurance. As of December 31, 2018, no incidence of any work-related injury or fatality was identified by the Group.

Labour Standards

Our employment practices are in compliance with applicable laws and regulations. Strictly abiding by the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and other laws and regulations, the Group prohibits the employment of child labour and forced labour. Upon joining, an employee's data file, including identity and age, will be reviewed thoroughly to ensure that there is no underage work. During the review, any child or forged identity data found will be handled in accordance with the law. The Group strictly abides by relevant laws and regulations of the jurisdiction in the place of operation, signing labour contracts with employees according to law and pays social insurance and protects the personal privacy of employees in strict accordance with provisions.

In addition, our staff handbook has set out details concerning working hours, overtime, leave and dismissal. The Group's implementations are carried out in a unified manner according to standard working hours to ensure that the working hours of employees are reasonable. Employees are not forced to work and, if overtime is required, they need to obtain approval in advance and receive paid leave afterwards. In the case of forced labour, employees have the right to appeal to the Group's Human Resources Department.

ANTI-CORRUPTION

The Group's commitment to cracking down on unethical business practices, including bribery, fraud and corruption can be reflected in our "Anti-Corruption Management Policy". Employees should report to us any suspected misconduct by phone or mail. Our internal audit department will enquire into the case carefully and implement correction measures in a professional and timely manner. Along with the above, code of ethics is also encapsulated in the employee handbook. We will make our best efforts to ensure employees' attention to the code and make it part of our everyday activities in order to create a positive corporate culture placing integrity and honesty on a high priority. During the Reporting Period, there was no litigation against the Group or its employees concerning corruption, bribery, fraud, extortion and money laundering.

OUR COMMITMENT TO THE COMMUNITY

As a corporate citizen, we have been actively fulfilling our social responsibility, sparing no effort to participate in various communal activities. We are not only engaging in building the community through conventional channels such as charity activities and volunteer activities, but are also fulfilling our social responsibility by bringing industry characteristics into play, continuously making a positive influence on the community. Going forward, the Group will continue to perform its social responsibility and constantly step up investments in communal public welfare undertakings, giving back to society through diversified channels.

Inputs toward the future development of industry talents

As an industry leader, we attach great importance to nurturing the next generation. Through a variety of forms, we provide young people interested in the game industry with platforms and opportunities to gain an understanding of and entry into the game industry.

Charity

The Group is enthusiastic about charity, showing concern for disadvantaged communities and making donations from time to time. In 2018, the Group has made in-kind donations through compliant charitable organizations to help those in need.

COMMITMENT TO OUR ENVIRONMENT

Taking up the role as a global corporate citizen, we are highly concerned about our impact on the environment and pledge to strike a balance between business development and environmental protection. In stringent compliance with applicable laws and regulations including but not limited to The Environmental Protection Law of the PRC, we have incorporated environmentally friendly measures regarding emission reduction and resource efficiency into daily operation. We will review and refine the policy from time to time to optimise the measures and push every one of us into routinising green initiatives to live a greener life.

- Encouraging employees to take public transportation in place of private vehicles.

- Maintain proper lighting in our working areas and turn off unused electric equipment in time.

- Selling electronic waste (including computers, servers and phones) to second-hand buyers to extend their life cycles.

- Closely monitoring the amount of general refuse produced, predominantly paper and food waste, by sample weighing to optimise waste reduction measures.

Only traces of air pollutant emissions generated by the company cars are involved in the course of business of the Group and that the impact on the environment and natural resources is minimal. Therefore, no disclosure of air pollutant emissions is made in the Report.

A small amount of electronic waste emissions is involved in the business of the Group. In terms of nonhazardous waste, paper use in the office is the major emission of the Group. During the Reporting Period, a total of 535 kg of paper was used. The Group remains committed to paper recycling. As for office waste such as waste batteries, we have specific recycling bins for employees to collect.

During the Reporting Period, our electricity consumption was approximately 27,710 kWh and the annual per-capita electricity consumption was approximately 104.96 kWh. The total amount of water consumed in the year was approximately 1,656 tonnes and the annual per-capita water consumption was approximately 6.27 tonnes. All the water consumed by the Group comes from the municipal pipeline network, thus no issue relating to water supplies was identified.

RESOURCE EFFICIENCY

The Group advocates environmental protection and energy conservation. To save natural resources, we have taken the following actions:

- Emails, instant communication tools and WeChat at Work are used and employees are not encouraged to print paper. A paperless process is now fully adopted for managing employee attendance. Necessary documents are printed. Double-sided printing and paper recycling are being promoted.

- Priority is given to energy-saving lighting and other energy-saving appliances to reduce electricity consumption.

- Although the Group's business does not belong to a high water consumption industry, we are still actively encouraging employees to treasure water in the face of a global crisis of scarce water resources. For example, we use automatic sensor faucets in washrooms to reduce water consumption.

- Although our Group's business does not involve packaging materials, recyclable materials are used as far as possible to comply with the principle of recycling.

- To reduce our energy consumption, air conditioners are turned off during non-working hours or when the office occupancy rate is low. In non-summer seasons like winter, the use of air conditioners is suspended to reduce exhaust gas and electricity consumption.

Given that the Report is the first environmental, social and governance report of the Group and that the Group had not yet established a data collection system, results of the corresponding energy-saving measures could not be quantified through the data in 2018 and therefore no relevant disclosures can be made in the Report.