Zengame Technology Holding Limited
禪遊科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2660

ANNUAL REPORT

2019

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ye Sheng (叶升)
(Chairman and Chief Executive Officer)
Mr. Yang Min (楊民)
(Vice Chairman and Chief Technology Officer)

Non-executive Directors

Ms. Fu Hao (付郝) *(Appointed on 19 October 2019)*
Mr. Lin Cong (林蔥)
(Resigned on 12 September 2019)
Ms. Li Wen (李雯) *(Resigned on 18 October 2019)*

Independent Non-executive Directors

Mr. Jin Shuhui (金書匯)
Mr. Mao Zhonghua (毛中華)
Mr. Yang Yi (陽翼)

AUDIT COMMITTEE

Mr. Jin Shuhui (金書匯) *(Chairman)*
Mr. Mao Zhonghua (毛中華)
Mr. Yang Yi (陽翼)

REMUNERATION COMMITTEE

Mr. Yang Yi (陽翼) *(Chairman)*
Mr. Ye Sheng (叶升)
Mr. Mao Zhonghua (毛中華)

NOMINATION COMMITTEE

Mr. Ye Sheng (叶升) *(Chairman)*
Mr. Mao Zhonghua (毛中華)
Mr. Yang Yi (陽翼)

JOINT COMPANY SECRETARIES

Mr. Zhang Yong (張勇)
Ms. Li Yan Wing Rita (李昕穎)

AUTHORIZED REPRESENTATIVES

Mr. Yang Min (楊民)
Ms. Li Yan Ming Rita (李昕穎)

HONG KONG LEGAL ADVISERS

Luk & Partners
In Association with
Morgan, Lewis & Bockius
Suites 1902-09, 19th Floor
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

COMPLIANCE ADVISER

Guotai Junan Capital Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

AUDITORS

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Rooms 1304–06
Changhong Science and Technology Mansion
Keji South 12 Road
Science and Technology Park
Nanshan District, Shenzhen
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Merchants Bank
Ping An Bank Co., Ltd

COMPANY WEBSITE

http://www.zen-game.com

STOCK CODE

2660

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	For the year ended 31 December			
	2016	2017	2018	**2019**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	337,953	459,724	554,950	**662,100**
Gross profit	73,050	157,932	247,077	**324,953**
Profit before tax	40,393	74,063	121,020	**177,712**
Profit for the year	40,411	66,396	108,809	**160,519**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			
	2016	2017	2018	**2019**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	256,270	327,584	334,382	**739,991**
Total liabilities	101,930	105,176	81,912	**144,676**
Total equity	154,340	222,408	252,470	**595,315**

OPERATIONAL HIGHLIGHTS

	For the year ended 31 December	
	2019	2018
	('000)	('000)
All Games		
Cumulative registered players	**728,067**	442,262
MAU	**48,538**	35,875
DAU	**7,486**	6,426
MPU (Virtual items)	**809**	1,120
ARPPU of virtual items (RMB)	**37**	36
Card and Board Games		
Cumulative registered players	**548,099**	340,368
MAU	**38,696**	25,309
DAU	**6,768**	5,594
MPU (Virtual items)	**775**	1,083
ARPPU of virtual items (RMB)	**36**	34
Other Games		
Cumulative registered players	**179,969**	101,895
MAU	**9,842**	10,566
DAU	**717**	832
MPU (Virtual items)	**33**	37
ARPPU of virtual items (RMB)	**61**	70

CHAIRMAN'S STATEMENT

Dear Shareholders,

The year of 2019 marked an important milestone of the Group, as the Group was successfully listed on the Main Board of the Stock Exchange on 16 April 2019. I am pleased to present our first annual report for the year ended 31 December 2019 to our Shareholders.

We are an established mobile game developer and operator in the PRC with special focus on card and board and other casual mobile games. Our major games have an extensive player base as they are based on public card and board games which have been widely welcomed by the users in China for many years. We also provide dozens of casual games. Our signature card game series, Tiantian Fight the Landlord — Live-action Version (天天鬥地主 — 真人版), ranked third among all Fight the Landlord games in the PRC in terms of average MAU. In addition, we also achieved great results for casual games. One of our tile-matching games, Fingertips Xiaoxingxing (指尖消星星), was one of top 10 IOS free download games in China in December 2019.

We generate our revenue from the sales of virtual items and in-game information service. As we further optimized and improved our strategies of in-game information service revenue, we recorded an increase in revenue from our in-game information service by over three times in 2019. We have also won awards including the "Most Competitive Advertisement Agent in 2019" and "Outstanding Media of the Gaming Industry" awarded by Tencent.

As at the end of 2019, we had over 700 million of cumulative registered users and over 48 million of MAU, representing an increase of 35% over the end of last year. In terms of financial performance, our revenue increased by 19.3% from RMB555.0 million in 2018 to RMB662.1 million in 2019. Our revenue from in-game information service increased by 316% to RMB307 million. Our net profit increased by 47.5% from RMB108.8 million in 2018 to RMB160.5 million in 2019.

The general development of the mobile game industry in China for the past year was positive. The government performed regulatory work orderly and the approval process of game publication numbers has resumed. The Group has obtained five new game publication numbers in 2019, all of which were for casual games. As at 31 December 2019, we possessed 61 game publication numbers. We have an adequate reserve in terms of game publication numbers and are confident that we will continue to obtain new game publication numbers in the future.

Looking forward to 2020, the Group will enter its tenth anniversary. In the midst of market fluctuations and speedy evolution, I understand that sustaining the stable and healthy development of a company is never easy. Sudden breakthrough with luck may bring short term success and profit but not long term sustainability and development. To ensure stable and healthy development in a market full of uncertainties, we have launched the corporate culture 2.0 version of "Integrity, Open, Cooperation, Concentration and Innovation" in 2020 in terms of culture promotion. On the basis of the previous version, we added the aim of "Open" and "Concentration". "Open" means we will create a more effective and opened organization and adopt the best from different aspects in order to keep abreast of current trends, whereas "Concentration" means we also focus on achieving breakthroughs to further improve our core competitiveness.

For business strategies, we will mainly focus on the following strategies in 2020:

- Continuously optimizing the existing game portfolio, adding new features and gameplay rules, and enhancing players' experience;
- Strengthening the research and development of casual games, in particular hyper-casual games (超休閒遊戲), exploring opportunities in the PRC and overseas casual games markets and continuing to diversify our revenue;
- Conducting more precise cross-selling promotion and increasing players' scale by relying on big data analysis and using the existing large-scale player base, and establishing and improving our own advertising platform;
- Continuing to expand the mixed monetization mode of virtual items consumption and in-game information service, and increase our business cooperation with distribution channels and advertising platforms, thereby increasing our income scale; and
- Pursuing opportunities to acquire or invest in other game developers or teams with mobile traffic foundations or promotional resources to strengthen our development of external cooperation.

In addition, having taken into account the performance of the Group for the financial year ended 31 December 2019, the Board has resolved to recommend the payment of a final dividend of HK$0.03 per Share for the year ended 31 December 2019. The total amount is HK$30.5 million.

Lastly, on behalf of the Board, I would like to express my gratitude to our staff for their contribution and professionalism. I would also like to express my sincere gratitude to our Shareholders and partners for their great support. To sum up, now, the world is experiencing an unprecedented evolution and entering into an era driven by high technology. We are excited with the numerous opportunities arising from the new era and have full confidence in solving difficulties and uncertainties in the future.

Ye Sheng
Chairman, Executive Director and Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an established mobile game developer and operator in the PRC with special focus on card and board and other casual mobile games. Many of our games are based on well-established classic card and board games and they have been widely welcomed by the users. The Group generated income through the sales of virtual items and in-game information service*. In terms of revenue and active users, Fight the Landlord (鬥地主) and Mahjong (麻將) are the two most popular series of card and board mobile games we offer. They are based on real-world card and board games that have enjoyed wide popularity in the PRC for many years. In addition, we also offer casual games, such as Fingertips Xiaoxingxing (指尖消星星), Chengyu Qing Liubu (成語請留步) and Physical Pinball (物理彈球). Among those casual games, Fingertips Xiaoxingxing, a tile-matching casual game, entered the top 10 of the IOS free download games in China in December 2019 and topped the list on 11 December 2019. In 2019, we launched 26 new games, among which 25 are casual games and one is board game. Our games will be promoted on various PRC application platforms as well as overseas mainstream platforms such as Apple store, Huawei, Oppo, Vivo, Toutiao (頭條), Kuaishou (快手), iQIYI (愛奇藝), Qutoutiao (趣頭條) and Facebook, etc. As at 31 December 2019, we had 52 self-developed games and 16 third-party games, among which 19 are card games, 15 are board games and 34 are other casual games, respectively.

In terms of financial performance, we experienced a rapid growth in the year of 2019. Revenue increased from approximately RMB555.0 million for the year ended 31 December 2018 to approximately RMB662.1 million for the year ended 31 December 2019, representing an increase of approximately 19.3%. Our net profit increased from approximately RMB108.8 million for the year ended 31 December 2018 to approximately RMB160.5 million for the year ended 31 December 2019, representing an increase of approximately 47.5%. Our adjusted net profit, excluding the Share-based payments and the Listing expenses, increased from approximately RMB128.3 million for the year ended 31 December 2018 to approximately RMB181.3 million for the year ended 31 December 2019, representing an increase of approximately 41.3%.

* In order to accommodate the preferences from our players, we have further enriched the contents of our in-game advertisements, which mainly include providing links to commercial product websites and providing information video contents and short video clips. This has further improved the monetization ability of our in-game advertising. In order to better reflect the enriched contents of our in-game advertisements which we are offering, our Directors consider that it is more appropriate to name this segment as provision of in-game information service.

In terms of business development in the year of 2019, the Group optimized and enhanced the product experience of existing games, increased the player's activity and stickiness, and at the same time increased the number of new players by strengthening promotion efforts in expanding promotion channels such as Toutiao, Qutoutiao, Kuaishou and iQIYI. We had approximately 285.8 million new registered players for the year ended 31 December 2019. Our average MAU increased from approximately 35.9 million for the year ended 31 December 2018 to approximately 48.5 million for the year ended 31 December 2019. Our average DAU increased from approximately 6.4 million for the year ended 31 December 2018 to approximately 7.5 million for the year ended 31 December 2019. Our ARPPU of virtual items increase from approximately RMB36 for the year ended 31 December 2018 to approximately RMB37 for the year ended 31 December 2019. With our further optimization and improvement of our in-game information service strategy, our revenue generated from the in-game information service achieved a significant growth in 2019. Such growth was attributable to, on one hand, our continuous investment in technology and our continuous optimization of the capabilities in processing big data and advertisement software development kits, thereby optimizing the game traffic and enhancing our advertising monetization ability through intelligent switching of traffic, big data mining, and multiple innovative display forms such as incentive videos, banners, information flow and interactive advertisements. On the other hand, we have strengthened the cooperation on advertising monetization with well-known advertising platforms such as ByteDance and Tencent. In 2019, we also started cooperation with other advertising platforms including Huawei, Kuaishou and Baidu. In addition, we have also optimized and enriched our materials and continued to enhance the attractiveness of the advertisements in order to attract more users to watch the videos, clink and download the commercial products. This has further improved the monetization ability of our in-game information service. As a result, for the year ended 31 December 2019, the Group's revenue from in-game information service amounted to approximately RMB307.0 million, representing a significant increase of approximately 316.7% from RMB73.7 million as compared with the year ended 31 December 2018.

In terms of the mobile game industry in the PRC, the overall development trend and atmosphere remained positive throughout the year, with a continuous growth in the number of players and the market scale. After the resumption of the approval process of game publication numbers by the PRC government, the Group has obtained five new game publication numbers in 2019, all of which were for casual games. As at 31 December 2019, we possessed 61 game publication numbers, 48 of which covering our card and board games and 13 of which covering our casual games. Due to the current development strategy and resources allocation, 14 games with publication numbers have not yet been in operation. The Group will start promoting their operations at any time as and when appropriate in the future. We have an adequate reserve in terms of game publication numbers, and are confident that we will continue to obtain new game publication numbers in the future.

The Shares have been successfully listed on the Main Board of the Stock Exchange since 16 April 2019. It was an important milestone for the Group's history, highlighting its competitive edge and capital strength. It also represents investors' recognition of our strategic development, financial performance and corporate governance, which will be the drivers of the Group's growth.

FUTURE PROSPECTS

In 2020, the Group will continue to move forward following its positive development trend in the year ended 31 December 2019. We will mainly focus on the following strategies in the year of 2020:

- Continuously optimizing the existing game portfolio, adding new features and gameplay rules, and enhancing players' experience;

- Strengthening the research and development of casual games, in particular hyper-casual games (超休閒遊戲), exploring opportunities in the PRC and overseas casual games markets and continuing to diversify our revenue;

- Conducting more precise cross-selling promotion and increasing players' scale by relying on big data analysis and using the existing large-scale player base, and establishing and improving our own advertising platform;

- Continuing to expand the mixed monetization mode of virtual items consumption and in-game information service, and increase our business cooperation with distribution channels and advertising platforms, thereby increasing our income scale; and

- Pursuing opportunities to acquire or invest in other game developers or teams with mobile traffic foundations or promotional resources to strengthen our development of external cooperation.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group operated self-developed games and third-party games. All of the games used a Free-to-Play model and the Group generated revenue through the sales of virtual items and in-game information service.

Sales proceeds of virtual items were initially recorded as contract liabilities on our consolidated statement of financial position and were then recognized as revenue in accordance with our revenue recognition policies. Revenue collected from the paying players of third-party games and the in-game information service are shared between the Group and the third-party game developers and the advertising platforms based on a pre-determined rate in accordance with the relevant agreements. The revenue generated from the sale of virtual items from third-party games and the in-game information service are both recognized on a net basis when the relevant services are provided.

The following table sets forth a breakdown of our revenue by business model for the years indicated:

	For the year ended 31 December				Year-on-Year Change
	2019		2018		
	RMB'000	%	RMB'000	%	%
Sales of virtual items	**355,100**	**53.6**	481,277	86.7	-26.2
— Self-developed games	**342,748**	**51.8**	475,778	85.7	-28.0
— Third-party games	**12,352**	**1.8**	5,499	1.0	124.6
In-game information service	**307,000**	**46.4**	73,673	13.3	316.7
Total	**662,100**	**100.0**	554,950	100.0	19.3

The following table sets forth a breakdown of our revenue by game category for the years indicated:

	For the year ended 31 December				Year-on-Year Change
	2019		2018		
	RMB'000	%	RMB'000	%	%
Card games	**478,895**	**72.3**	471,379	84.9	1.6
Board games	**32,832**	**5.0**	19,115	3.4	71.8
Other games(1)	**150,373**	**22.7**	64,456	11.7	133.3
Total	**662,100**	**100.0**	554,950	100.0	19.3

Note:

(1) Other games include other casual games and hard core games.

For the year ended 31 December 2019, the Group's total revenue was approximately RMB662.1 million, representing an increase of approximately 19.3% from approximately RMB555.0 million as compared with the year ended 31 December 2018. This increase was primarily due to the significant increase in the revenue generated from the in-game information service which the Group began in May 2018.

For the year ended 31 December 2019, the Group's revenue from sale of virtue items amounted to approximately RMB355.1 million, representing a decrease of approximately 26.2% from RMB481.3 million as compared with the year ended 31 December 2018. On the other hand, for the year ended 31 December 2019, the Group's revenue from in-game information service amounted to approximately RMB307.0 million, representing an increase of approximately 316.7% from RMB73.7 million as compared with the year ended 31 December 2018. This was mainly due to (i) the change in the Group's revenue strategy by encouraging players, in particular non-paying players, to obtain game beans by watching in-game advertising videos or clinking the links of the commercial products instead of direct purchasing; and (ii) the further deepened strategy of the Group for the in-game information service business. The Group has increased its cooperation with more advertising platforms, thereby increasing the fill rate and the penetration rate of the advertisements.

Cost of Sales

The following table sets forth a breakdown of our cost of sales by nature for the years indicated:

	For the year ended 31 December		Year-on-Year
	2019	2018	Change
	(RMB'000)	(RMB'000)	%
Payment channel costs	**81,165**	104,877	-22.6
Distribution platform costs	**121,175**	192,629	-37.1
Information service costs	**123,193**	—	—
Others	**11,614**	10,367	12.0
Total	**337,147**	307,873	9.5

For the year ended 31 December 2019, the cost of sales was approximately RMB337.1 million, representing an increase of approximately 9.5% from approximately RMB307.9 million as compared with the year ended 31 December 2018. This was mainly attributable to the mix of (i) the decrease in payment channel cost of RMB23.7 million and distribution platform costs of RMB71.5 million caused by the decrease in the revenue from the sales of virtual items; and (ii) the increase in the information service costs of RMB123.2 million caused by the increase in the revenue from in-game information service. Information service costs are mainly the direct marketing costs corresponding to the in-game information service revenue. The amount of information service costs for the year ended 31 December 2018 was included in the selling and distribution expenses as the amount was insignificant.

Gross Profit and Gross Profit Margin

Gross profit increased by 31.5% from approximately RMB247.1 million for the year ended 31 December 2018 to approximately RMB325.0 million for the year ended 31 December 2019, which was in line with the growth of the Group's business. The gross profit margin increased to 49.1% for the year ended 31 December 2019 from 44.5% for the year ended 31 December 2018. The increase in our gross profit margin was primarily due to the significant increase in the revenue from in-game information service, where the margin is much higher than the revenue from the sale of virtue items.

The following table sets forth our gross profit and gross profit margin by business model:

	For the year ended 31 December			
	2019		2018	
	Gross Profit RMB'000	**Gross Profit Margin %**	Gross Profit RMB'000	Gross Profit Margin %
Sales of virtual items				
— Self-developed games	**128,794**	**37.6**	167,905	35.3
— Third-party games	**12,352**	**100.0**	5,499	100.0
In-game information service	**183,807**	**59.9**	73,673	100.0
Total	**324,953**	**49.1**	247,077	44.5

Other Income

Other income increased by 64.8% from approximately RMB10.7 million for the year ended 31 December 2018 to approximately RMB17.6 million for the year ended 31 December 2019. The significant increase was primarily due to (i) the increase in bank interest income of approximately RMB3.7 million; (ii) the increase in government subsidy of approximately RMB2.1 million; and (iii) the increase in the super deduction for input VAT of approximately RMB1.5 million.

Selling and Distribution Expenses

Selling and distribution expenses increased from approximately RMB71.2 million for the year ended 31 December 2018 to approximately RMB80.9 million for the year ended 31 December 2019. This increase was primarily attributable to the increase in advertising and promotion costs for the purpose of expanding player base and promoting new games.

Administrative Expenses

Administrative expenses increased from approximately RMB35.6 million for the year ended 31 December 2018 to approximately RMB43.2 million for the year ended 31 December 2019, primarily due to (i) the increase in the Listing expenses, audit fees and professional parties consultation fees which amounted to approximately RMB5.1 million; (ii) the increase in staff welfare expenses which amounted to approximately RMB0.3 million; and (iii) the increase in the Share-based payment which amounted to approximately RMB0.7 million.

Research and Development Expenses

Research and development expenses increased from approximately RMB28.3 million for the year ended 31 December 2018 to approximately RMB38.3 for the year ended 31 December 2019. The increase was primarily due to (i) the increase in labor costs of approximately RMB9.1 million caused by the increase in the number of research and development staff and the adjustment of salary; and (ii) the cost amounting to approximately RMB1.2 million in engaging a third party to develop some casual games in order to improve development efficiency.

Other Expenses

Other expenses increased from approximately RMB1.2 million for the year ended 31 December 2018 to approximately RMB2.1 million for the year ended 31 December 2019, primarily due to the provision of impairment for trade receivables and donation expense related to the Listing.

Finance Costs

Finance costs decreased from approximately RMB0.5 million for the year ended 31 December 2018 to RMB0.4 million for the year ended 31 December 2019, as the relevant loan agreement expired in December 2018.

Income Tax Expense

The income tax expenses for the year ended 31 December 2019 was approximately RMB17.2 million, increased by 40.8% from approximately RMB12.2 million as compared with the year ended 31 December 2018. Such increase was mainly attributable to the increase in the taxable income.

Profit for the year ended 31 December 2019

As a result of the above factors, the net profit of the Group was approximately RMB160.5 million for the year ended 31 December 2019, an increase of approximately 47.5% as compared with RMB108.8 million for the year ended 31 December 2018.

Non-HKFRS Measures — Adjusted Net Profit

The adjusted net profit for the year ended 31 December 2019, adjusted by excluding the impact from one-off expenses in relation to the Listing and share-based compensation to key employees, was approximately RMB181.3 million, increased by 41.3% as compared to approximately RMB128.3 million for the year of 2018.

The following table sets out the adjusted net profit as well as the calculation process based on non-HKFRS for the years ended 31 December 2019 and 2018:

	For the year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Profit for the period	**160,519**	108,809
Add:		
Listing-related expenses	**14,312**	12,435
Share-based compensation	**6,436**	7,019
Adjusted net profit	**181,267**	128,263

Liquidity and Capital Resources

The Group's total bank balances and cash increased from approximately RMB11.1 million as at 31 December 2018 to approximately RMB293.5 million as at 31 December 2019. Such increase in total bank balances and cash during the year ended 31 December 2019 was primarily resulted from the increase in the net cash flow from operating activities and the net proceeds from the Listing.

As at 31 December 2019, current assets of the Group amounted to approximately RMB681.1 million, including bank balances and cash of approximately RMB293.5 million and other current assets of approximately RMB387.6 million. Current liabilities of the Group amounted to approximately RMB134.4 million, including trade payables and contract liabilities of approximately RMB87.3 million and other current liabilities of approximately RMB47.1 million. As at 31 December 2019, the current ratio (the current assets to current liabilities ratio) of the Group was 5.07, as compared with 3.7 as at 31 December 2018.

Gearing ratio is calculated by dividing total debt (being interest-bearing bank borrowings) by total equity. The Group does not have any bank borrowings and other debt financing obligations as at 31 December 2019 and the resulting gearing ratio is nil (31 December 2018: nil). The Group intends to finance the expansion, investments and business operations with internal resources.

Capital Expenditures

For the year ended 31 December 2019, the capital expenditures of the Group amounted to approximately RMB3.5 million, which were primarily used to purchase vehicles and office software, and for office decoration.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2019.

Pledge of Assets

As at 31 December 2019, the Group did not pledge any assets.

Future Plan for Material Investments and Capital Assets

Save as disclosed in this annual report, the Group did not have other plans for material investments and capital assets.

Significant Investments, Acquisitions and Disposals

The Company has a significant investment with a value of 5% or more of the Company's total assets as at 31 December 2019 in Genimous Technology Co., LTD. ("**Zhidu Technology**"), a company listed on the Shenzhen Stock Exchange (stock code: 000676) and is primarily engaged in the aggregation and operation of mobile internet traffic. As at 31 December 2019, the Company held 4,122,561 shares in Zhidu Technology, representing 0.31% of their total issued shares. The history and reason for such investment by the Company was set out in page 290 of the Prospectus. The investment principal in Zhidu Technology amounted to RMB9.9 million. The fair value of such investment as at 31 December 2019 amounted to approximately RMB37.3 million or approximately 5.0% of the total assets of the Company. During the year ended 31 December 2019, we sold 3,760,562 shares of Zhidu Technology and the accumulated gain recognised in other comprehensive income of RMB13.8 million was transferred to retained earnings. We have also received cash dividend of RMB0.17 million and 1,741,182 bonus shares of Zhidu Technology.

The Company has also invested in various wealth management products issued by a number of licensed banks in the PRC. For each of these investments in wealth management products, none of them had a value of 5% or more of the total assets of the Company as at 31 December 2019.

The Directors are of the view that the Company selected products with safety features issued by licensed reputable banks and financial institutions, supplemented by certain long-term safe investments, in order to maximise investment returns and minimise potential risks. Subscription of the wealth management products was funded by the Group's surplus cash and therefore does not affect the working capital or the normal operation of the Company.

Save as disclosed in this annual report, there were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for other material investments or additions of capital assets during the year ended 31 December 2019.

Foreign Exchange Risk Management

The functional currency of the Group is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 28 August 2018 as an exempted company with limited liability under the Companies Law. The Group is an established mobile game developer and operator in the PRC with special focus on card and board and other casual mobile games.

Details of the principal activities of the subsidiaries of the Company are set out in note 1 to the financial statements. An analysis of the Group's revenue and operating results for the year ended 31 December 2019 is set out in the section headed "Management Discussion and Analysis" in this annual report.

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. In addition, a discussion on relationships with its key stakeholders is included in the section headed "Management Discussion and Analysis". The review and discussion form part of this directors' report.

RESULTS, DIVIDEND AND DIVIDEND POLICY

The consolidation results of the Group for the year ended 31 December 2019 are set out on pages 71 to 149 of this annual report.

The Board has resolved to recommend the payment of a final dividend of HK$0.03 per Share for the year ended 31 December 2019. The total amount is HK$30.5 million.

The Company has adopted a dividend policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions, operational needs, capital requirements and factors as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year.

CLOSURE OF THE REGISTER OF MEMBERS

In order to ascertain the Shareholders' entitlements to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 13 May 2020 to Monday, 18 May 2020, both days inclusive, during which period no transfer of Shares will be registered. All Share transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 12 May 2020.

In order to ascertain the Shareholders' entitlements to the proposed final dividend (subject to approval by the Shareholders at the AGM), the register of members of the Company will be closed from Monday, 25 May 2020 to Wednesday, 27 May 2020, both dates inclusive, during which period no transfer of shares will be registered. All Share transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 22 May 2020.

FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the past four financial years is set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

TAX RELIEF AND EXEMPTION

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year ended 31 December 2019 are set out in note 13 to the consolidated financial statements on pages 121 to 122 of this annual report.

ENVIRONMENTAL 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.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2019 are set out in note 27 to the consolidated financial statements on pages 133 to 134 of this annual report.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the year ended 31 December 2019 are set out in the Consolidated Statement of Changes in Equity on page 75 of this annual report and in note 36 to the statement of financial position of the Company on pages 148 to 149 of this annual report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had distributable reserves amounting to RMB154.1 million.

BORROWINGS

As at 31 December 2019, the Group did not have any bank borrowings.

PLEDGE OF ASSETS

As at 31 December 2019, the Group did not pledge any assets.

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

During the period from the Listing Date to 31 December 2019, the Company has repurchased a total of 3,398,000 Shares on the Stock Exchange and the details are set out below.

Date of Repurchase	No. of Shares	Price Per Share Highest HK$	Price Per Share Lowest HK$	Aggregate Consideration Price HK$
18/12/2019	2,768,000	0.68	0.67	1,879,760
19/12/2019	230,000	0.67	0.67	154,100
20/12/2019	200,000	0.67	0.67	134,000
30/12/2019	200,000	0.72	0.72	144,000

The Directors believe that repurchases of Shares are in the best interests of the Company and the Shareholders as a whole and that such repurchases of Shares would lead to an enhancement of the earnings per Share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the period from the Listing Date to 31 December 2019.

PRE-EMPTIVE RIGHTS

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

SIGNIFICANT EVENTS AFTER THE YEAR END

In late 2019 and early 2020, there was an outbreak of an infectious respiratory disease named "COVID-19" by the World Health Organization, which is caused by a novel coronavirus. The PRC government has implemented various contingency measures and actions to prevent the spread of COVID-19 such as an extension of the Chinese New Year holiday, as well as travel and work restrictions in certain provinces and municipalities. The COVID-19 outbreak is expected to cause a great impact to the economic and business environment in the PRC. However, the Group's operations and financial performance were not adversely affected during the year ended 31 December 2019 and up to the date of this annual report. On the contrary, the Group experienced a significant increase in both the revenue and the active users in January and February 2020 comparing to the corresponding period in the last year.

Save as the above, there were no significant events after 31 December 2019 and up to the date of this annual report.

USE OF PROCEEDS

The Shares were listed on the Stock Exchange on the Listing Date and the net proceeds raised by the Company from the Listing are approximately HK$206.5 million (after deduction of the underwriting commissions in respect of the offering and other estimated expenses). During the year ended 31 December 2019, the net proceeds from the listing were utilized in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus, with the balance amounted to approximately RMB113.7 million. The balance of the proceeds will continue to be utilized according to the manner as disclosed in the Prospectus. In 2020, the Company will use the proceeds raised from the Listing in accordance with its development strategies, market conditions and intended use of such proceeds. Details are set out in the following table:

Business Strategy	Net Proceeds from the Global Offering (RMB million)	Utilization as at 31 December 2019 (RMB million)	Unutilized Amount (RMB million)
Strengthening the Group's research and development capabilities	64.4	10.3	54.1
Funding promotional and marketing activities	55.3	51.7	3.6
Acquiring other card and board and casual mobile game developers and companies whose business as supplement the Group's	27.6	1.5	26.1
Funding the Group's expansion to overseas markets	18.5	0.1	18.4
Working capital and other general corporate purposes	17.2	5.7	11.5
Total	**183.0**	**69.3**	**113.7**

DIRECTORS

The Directors of the Company from the Listing Date and up to the date of this annual report were:

Executive Directors

Mr. Ye Sheng *(Chairman and Chief Executive Officer)*
Mr. Yang Min *(Vice Chairman and Chief Technology Officer)*

Non-executive Directors

Ms. Fu Hao *(Appointed on 19 October 2019)*
Mr. Lin Cong *(Resigned on 12 September 2019)*
Ms. Li Wen *(Resigned on 18 October 2019)*

Independent Non-executive Directors

Mr. Jin Shuhui
Mr. Mao Zhonghua
Mr. Yang Yi

Biographical details of the Directors and the senior management of the Group are set out on pages 48 to 53 in this annual report. Upon specific enquiry by the Company, there has been no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B of the Listing Rules since the Listing Date.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company during the year ended 31 December 2019 for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of the non-executive Directors (including the two resigned non-executive Directors) has entered into a letter of appointment with the Company during the year ended 31 December 2019 for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by the non-executive Director to the Company or with immediate effect following the notice in writing served by the Company to the non-executive Director.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company during the year ended 31 December 2019 for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing by served by the independent non-executive Director to the Company or with immediate effect following the notice in writing served by the Company to the independent non-executive Director.

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 has entered into any service contract with the Company or any of its subsidiaries which 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 31 December 2019 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 31 December 2019 or subsisted at the end of the year.

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

Save as disclosed in this annual report, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended 31 December 2019.

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 of the Board, having regard to the Group's operating results, individual performance, experience, responsibility, workload and time devoted to the Company 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 8 and note 9 to the consolidated financial statements on pages 114 to 116 and page 116 of this annual report.

For the year ended 31 December 2019, no emoluments were paid by the Group to any Director 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 has waived any emoluments for the year ended 31 December 2019.

Except as disclosed above, no other payments have been made or are payable, for the year ended 31 December 2019, by the Group to or on behalf of any of the Directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2019, none of the Directors or their respective 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.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

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

DEED OF NON-COMPETITION

Each of the Controlling Shareholders entered into the deed of non-competition (the "**Deed of Non-competition**") in favour of the Company, pursuant to which the Controlling Shareholders have irrevocably, jointly and severally given certain non-competition undertakings to the Company. Details of the Deed of Non-competition are set out in the section headed "Relationship with Controlling Shareholders — Deed of Non-competition" in the Prospectus.

The Controlling Shareholders confirmed that they have complied with the Deed of Non-competition for the year ended 31 December 2019. The independent non-executive Directors have conducted such review for the year ended 31 December 2019 and also reviewed the relevant undertakings and are satisfied that the Deed of Non-competition has been fully complied with.

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 31 December 2019.

MATERIAL LEGAL PROCEEDINGS

The Group was not involved in any material legal proceeding during the year ended 31 December 2019.

LOAN AND GUARANTEE

During the year ended 31 December 2019, 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 or their respective connected persons.

RSU SCHEME

The Board has adopted the RSU Scheme on 9 October 2018 with a view to incentivize the directors, senior management and employees of the Group for their contribution to the Group and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group.

We have appointed The Core Trust Company Limited as the trustee (the "**Trustee**") to assist with the administration and vesting of the RSUs granted pursuant to the RSU Scheme. A total of 62,561,080 Shares were issued to Hezhong Power Limited (the "**RSU Nominee**"), who hold the shares for the benefit of eligible participants pursuant to the RSU Scheme. No further Shares will be allotted and issued to the RSU Nominee or the trustee for the purpose of the RSU Scheme (other than pursuant to sub-division, reduction, consolidation, reclassification or reconstruction of the share capital of the Company in accordance with the RSU Scheme).

The RSU Scheme shall be valid and effective for a period of ten (10) years, commencing on the date of the first grant of the RSUs, being 1 June 2016 (unless it is terminated earlier in accordance with its terms).

As at the date of 31 December 2019, RSUs in respect of 62,561,080 underlying Shares, representing approximately 6.14% of the total issued Shares (excluding the Shares repurchased), had been granted to 24 selected persons pursuant to the RSU Scheme. Three of the selected persons are the directors of certain of the PRC Operating Entities and two (excluding those who are also a director of certain of the PRC Operating Entities) are members of the senior management.

RSUs granted to the directors of the PRC Operating Entities and the senior management of the Group

As at 31 December 2019, RSUs in respect of 15,188,148 Shares, 12,148,084 Shares and 3,037,021 Shares were granted to three directors of the PRC Operating Entities, Mr. Zhu Weijie, Ms. Chen Yan and Ms. Xiong Mi, respectively, with a vesting period of 48 months as to 25% each on 1 June 2017, 1 June 2018, 1 June 2019 and 1 June 2020, respectively.

As at 31 December 2019, RSUs in respect of (i) 6,560,000 Shares were granted to our senior management member, Ms. Huang Haiyan, with a vesting period of 24 months as to 50% each on 1 June 2019 and 1 June 2020, respectively; and (ii) 1,518,511 Shares were granted to our senior management member, Mr. Zhang Yong, with a vesting period of 48 months as to 25% each on 1 June 2019, 1 June 2020, 1 June 2021 and 1 June 2022, respectively.

RSUs granted to other participants

As at 31 December 2019, RSUs in respect of (i) 22,818,268 Shares were granted to 16 of our employees with a vesting period of 72 months as to 10% each on 1 June 2017 and 1 June 2018, 20% each of 1 June 2019, 1 June 2020, 1 June 2021 and 1 June 2022, respectively; and (ii) 1,291,048 Shares were granted to three of our employees with a vesting period of 48 months as to 25% each on 1 June 2019, 1 June 2020, 1 June 2021 and 1 June 2022, respectively.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme conditionally approved by the resolution of the then shareholders of the Company on 28 March 2019. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules. The details of the Share Option Scheme are as follows:

1. The purpose of the Share Option Scheme

   To give the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. The participants of the Share Option Scheme

   1. Director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group and any employee of the Group;
   2. Direct or indirect shareholder of any member of the Group;
   3. Supplier of goods or services to any member of the Group;
   4. Customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;
   5. Person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group;
   6. Associate of any of the persons mentioned above; and
   7. Any person involved in the business affairs of the Company whom the Board determines to be appropriate to participate in the Share Option Scheme.

3. The total number of securities available for issue under the Share Option Scheme together with the percentage of the issued shares that it represents as at the date of this annual report

   The new Shares which may be issued by the Company upon exercise of all share options to be granted under the Share Option Scheme and other share option schemes of the Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 100,000,000 Shares, representing 9.82% of the issued Shares as at the date of this annual report.

4. The maximum entitlement of each participant under the Share Option Scheme

   The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each participant under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

5.	The period within which the securities must be taken up under an option	An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by the Board at its absolute discretion and notified by the Board to each grantee of the option (the "**Grantee**") as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme. Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules.
6.	The minimum period, if any, for which an option must be held before it can be exercised	Subject to the terms and conditions as the Board may determine (including the terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the Grantee before the option can be exercised.
7.	The amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	An offer of the grant of an option shall remain open for acceptance by the eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. An option shall be deemed to have been granted and accepted by the eligible person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the Grantee together with a remittance in favor of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an option must be accepted by the relevant eligible person, being a date no later than 28 days after the offer date. Such remittance shall in no circumstances be refundable.
8.	The basis of determination of the exercise price	The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever the highest of: (i) the nominal value of a Share; and (ii) the closing price of a Shares as stated in the Stock Exchange's daily quotations sheet on the offer date; and (iii) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.
9.	The remaining life of the Share Option Scheme	The Share Option Scheme remains in force until 27 March 2029.

For the year ended 31 December 2019, no share option was granted, exercised, cancelled or lapsed since its adoption and there is no outstanding share option under the Share Option Scheme.

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

As at 31 December 2019, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

(i) Long position in the Company

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company[3]
Mr. Ye Sheng	Founder of a discretionary trust[1]	231,712,000	22.76%
Mr. Yang Min	Founder of a discretionary trust[2]	197,604,100	19.41%

Notes:

(1) Sky-zen Capital Limited is owned as to (i) 80% by YS Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Ye Sheng as the settlor and beneficiary; and (ii) 20% by Mr. Ye Sheng. Accordingly, Mr. Ye Sheng is deemed to be interested in all the Shares held by Sky-zen Capital Limited.

(2) J&L Y Limited is owned as to (i) 80% by Y&J Family Trust, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Yang Min as the settlor and beneficiary; and (ii) 20% by Mr. Yang Min. Accordingly, Mr. Yang Min is deemed to be interested in all the Shares held by J&L Y Limited.

(3) The percentage is calculated based on the total number of 1,018,274,000 Shares in issue as at 31 December 2019 (excluding the Shares repurchased).

(ii) Long position in associated corporation

Zen-Game Shenzhen

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in the Group
Mr. Ye Sheng	Interest in a controlled Corporation(1)	13,326,923	24.68%
Mr. Yang Min	Interest in a controlled Corporation(2)	11,695,054	21.65%

Notes:

(1) Mr. Ye Sheng holds 99% equity interest of Shenzhen Tianchan Technology Co., Ltd.* (深圳市天禪科技有限公司) and he is thus deemed to be interested in the shares held by Shenzhen Tianchan Technology Co., Ltd.* (深圳市天禪科技有限公司) in Zen-Game Shenzhen.

(2) Mr. Yang Min holds 90% equity interest of Shenzhen Dingyi Technology Co., Ltd.* (深圳市鼎翌科技有限公司) and he is thus deemed to be interested in the shares held by Shenzhen Dingyi Technology Co., Ltd.* (深圳市鼎翌科技有限公司) in Zen-Game Shenzhen.

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was 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 they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2019, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

(i) Long position in the Company

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in the Group(10)
Sky-zen Capital Limited(1)	Beneficial owner	231,712,000	22.76%
Ms. Xie Yingying(2)	Interest of spouse	231,712,000	22.76%
YS Limited(1)	Nominee for another person (other than a bare trustee)	231,712,000	22.76%
J&L Y Limited(3)	Beneficial owner	197,604,100	19.41%
Ms. Jiang Qian(4)	Interest of spouse	197,604,100	19.41%
Y&J Family Limited(3)	Nominee for another person (other than a bare trustee)	197,604,100	19.41%
D Fun Limited(5)	Beneficial owner	165,201,300	16.22%
Ms. Zhang Wei(5)	Founder of a discretionary trust	165,201,300	16.22%
Mr. Zeng Liqing(6)	Interest of spouse	165,201,300	16.22%
Bonaza Limited(5)	Nominee for another person (other than a bare trustee)	165,201,300	16.22%
Playa Technology Limited(7)	Beneficial owner	90,860,920	8.92%
Mr. Bao Zhoujia(7)	Founder of a discretionary Trust	90,860,920	8.92%
Sky Snow Limited(7)	Nominee for another person (other than a bare trustee)	90,860,920	8.92%
Hezhong Power Limited(8)	Nominee for another person (other than a bare trustee)	62,561,080	6.14%
TCT (BVI) Limited	Other(9)	231,712,000	22.76%
	Other(9)	197,604,100	19.41%
	Other(9)	165,201,300	16.22%
	Other(9)	90,860,920	8.92%
	Other(9)	62,561,080	6.14%
The Core Trust Company Limited	Trustee(1)	231,712,000	22.76%
	Trustee(3)	197,604,100	19.41%
	Trustee(5)	165,201,300	16.22%
	Trustee(7)	90,860,920	8.92%
	Trustee(8)	62,561,080	6.14%

Notes:

(1) Sky-zen Capital Limited is owned as to (i) 80% by YS Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Ye Sheng as the settlor and beneficiary; and (ii) 20% by Mr. Ye Sheng. Accordingly, YS Limited is deemed to be interested in all the Shares held by Sky-zen Capital Limited.

(2) Ms. Xie Yingying is the spouse of Mr. Ye Sheng and she is thus deemed to be interested in all the Shares held by Mr. Ye Sheng under the SFO.

(3) J&L Y Limited is owned as to (i) 80% by Y&J Family Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Yang Min as the settlor and beneficiary; and (ii) 20% by Mr. Yang Min. Accordingly, Y&J Family Limited is deemed to be interested in all the Shares held by J&L Y Limited.

(4) Ms. Jiang Qian is the spouse of Mr. Yang Min and she is thus deemed to be interested in all the Shares held by Mr. Yang Min under the SFO.

(5) D Fun Limited is owned as to (i) 80% by Bonaza Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Ms. Zhang Wei as the settlor and beneficiary; and (ii) 20% by Ms. Zhang Wei. Accordingly, each of Bonaza Limited and Ms. Zhang Wei is deemed to be interested in all the Shares held by D Fun Limited.

(6) Mr. Zeng Liqing is the spouse of Ms. Zhang Wei and he is thus deemed to be interested in all the Shares held by Ms. Zhang Wei under the SFO.

(7) Playa Technology Limited is owned as to (i) 80% by Sky Snow Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Bao Zhoujia as the settlor and beneficiary; and (ii) 20% by Mr. Bao Zhoujia. Accordingly, each of Sky Snow Limited and Mr. Bao Zhoujia is deemed to be interested in all the Shares held by Playa Technology Limited. On 10 January 2020, Sky Snow Limited transferred 80% of shares of Playa Technology Limited to Mr. Bao Zhoujia. After the said transfer, Mr. Bao Zhoujia is deemed to be interested in all the Shares held by Playa Technology Limited.

(8) Hezhong Power Limited is wholly-owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee under the RSU Scheme.

(9) Certain Shares were held by Sky-zen Capital Limited (22.76%), J&L Y Limited (19.41%), D Fun Limited (16.22%), Playa Technology Limited (8.92%) and Hezhong Power Limited (6.14%), pursuant to certain discretionary trusts established and the RSU Scheme. Sky-zen Capital Limited, J&L Y Limited, D Fun Limited and Playa Technology Limited are held by YS Limited, Y&J Family Limited, Bonaza Limited and Sky Snow Limited (each a "**Nominee**"), respectively, as to 80%. Each Nominee and Hezhong Power Limited is wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of the aforementioned discretionary trusts and the RSU Scheme.

(10) The percentage is calculated based on the total number of 1,018,274,000 Shares in issue as at 31 December 2019 (excluding the Shares repurchased).

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the sections headed "RSU Scheme" and "Share Option Scheme", at no time during the year ended 31 December 2019 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

During the year ended 31 December 2019, the percentages of purchases from the Group's largest supplier and five largest suppliers were 14.0% and 47.8%, respectively. The percentages of sales attributable to the Group's largest customer and the five largest customers were 17.2% and 40.6%, respectively.

As far as the Directors are aware, none of the Directors, their close associates (as defined under the Listing Rules) nor any substantial shareholders has any beneficial interest in the five largest suppliers or customers of the Group.

EMPLOYEE REMUNERATION AND RELATIONS

As at 31 December 2019, the Group had approximately 213 employees (177 as at 31 December 2018). As required by the PRC laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. Remuneration of the Group's employees includes basic salaries, allowances, bonus, share options 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. The Group believes that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes during the year ended 31 December 2019.

RETIREMENT BENEFITS SCHEME

All of our employees are in PRC and they are members of the state-managed retirement benefits scheme operated by the PRC government. Our employees 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 2 to the consolidated financial statements in this annual report.

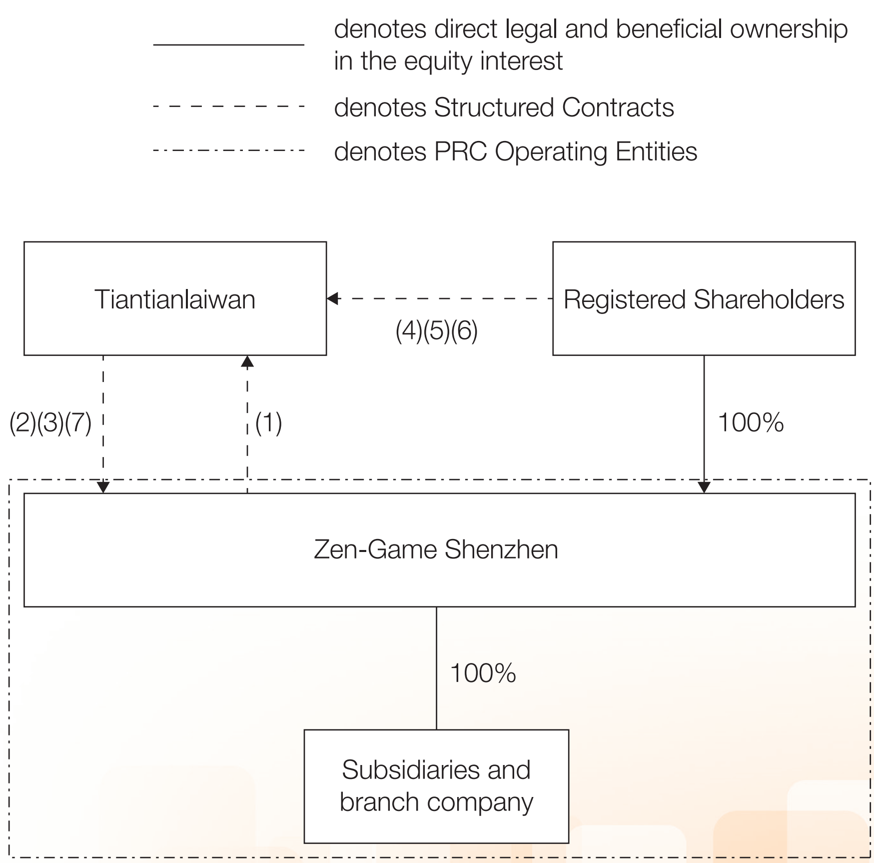
CONNECTED TRANSACTIONS

Save as the transactions contemplated under the Structured Contracts as set out below, during the year ended 31 December 2019, 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.

Structured Contracts

A series of Structured Contracts was entered into between Tiantianlaiwan and Zen-game Shenzhen, pursuant to which the Company would gain effective control over, and receive all the economic benefits generated by, the businesses operated by the PRC Operating Entities. Accordingly, through the Structured Contracts, the results of operations and assets and liabilities of Zen-game Shenzhen and its subsidiaries are consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of the Group. The total revenue of the PRC Operating Entities during the year ended 31 December 2019 was approximately RMB638.7 million, and the total assets of the PRC Operating Entities as at 31 December 2019 was approximately RMB685.6 million.

The following simplified diagram illustrates the flow of economic benefits from the PRC Operating Entities to the Group as stipulated under the Structured Contracts:



Notes:

1. Payment of service fees. Please refer to the paragraph headed "Summary of the Structured Contracts — (1) Exclusive Consultancy and Technical Service Agreement" below.

2. Provision of exclusive consultancy and technical services. Please refer to the paragraph headed "Summary of the Structured Contracts — (1) Exclusive Consultancy and Technical Service Agreement" below.

3. License of intellectual property rights. Please refer to the paragraph headed "Summary of the Structured Contracts — (2) IP License Agreement" below.

4. Grant of exclusive call option to acquire all or some of the shares of Zen-Game Shenzhen and all or part of its assets. Please refer to the paragraph headed "Summary of the Structured Contracts — (3) Exclusive Call Option Agreement" below.

5. Entrustment of Shareholders' right including Shareholders' power of attorney. Please refer to the paragraph headed "Summary of the Structured Contracts — (4) Shareholders' Rights Entrustment Agreement" and "Summary of the Structured Contracts — (5) Shareholders' Powers of Attorney" below.

6. Share pledge by the Registered Shareholders of their shares of Zen-Game Shenzhen. Please refer to the paragraph headed "Summary of the Structured Contracts — (7) Share Pledge Agreement" below.

7. Provision of loans by Tiantianlaiwan to Shenzhen Zen-Game which will be directly settled by Tiantianlaiwan as capital contribution of the PRC Operating Entities on behalf of Shenzhen Zen-Game. Please refer to the paragraph headed "Summary of the Structured Contracts — (8) Loan Agreement" below.

As at the date of this annual report, we have not encountered any interference or encumbrance from any governing bodies in our plan to adopt the Structured Contracts and the consolidated financial results of the PRC Operating Entities are consolidated to those of the Group.

Summary of the Structured Contracts

A description of each of the specific agreements that comprise the Structured Contracts is set out below:

(1) Exclusive Consultancy and Technical Service Agreement

Pursuant to the Exclusive Consultancy and Technical Service Agreement, Tiantianlaiwan agreed to provide exclusive consultancy and technical services to Zen-Game Shenzhen, including but not limited to, (a) development, update, upgrade and maintenance of software for computer and mobile devices; (b) technical consultation and purchase of hardware, daily management, maintenance and update of database; (c) computer graphic design, website design and other related technical consulting services; (d) marketing on branding, product promotion placing, customer and public relations and management consulting services; (e) provision of technical training to staff; (f) engaging technical staff to provide on-site technical support; and (g) providing other technical services reasonably requested by Zen-Game Shenzhen.

In consideration of the consultancy and technical services provided by Tiantianlaiwan, Zen-Game Shenzhen agreed to pay Tiantianlaiwan by each quarter a service fee equal to income from operations from the preceding quarter. Tiantianlaiwan has the right (but not the obligation) to adjust the amount of such service fee by reference to the actual services provided and the actual business operations and needs of Zen-Game Shenzhen.

Pursuant to the Exclusive Consultancy and Technical Service Agreement, any intellectual property developed or created, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Consultancy and Technical Service Agreement shall be vested with Tiantianlaiwan.

(2) IP License Agreement

Pursuant to the IP License Agreement, Tiantianlaiwan granted Zen-Game Shenzhen a non-exclusive and non-transferable intellectual property license to use the intellectual property rights relating to games development, operation and services that are legally owned by Tiantianlaiwan from time to time for the sole purpose of games development, operation and services of Zen-Game Shenzhen. In consideration of the foregoing, Zen-Game shall pay Tiantianlaiwan by each quarter a license fee, which is included in the service fees under the Exclusive Consultancy and Technical Service Agreement.

Term of the IP license Agreement commenced from 27 October 2018 and continues to be effective until Zen-Game Shenzhen ceases its business operation, subject to relevant laws and regulations in PRC. The IP license Agreement will be automatically terminated on the condition: (1) Tiantianlaiwan exercises its call option under the exclusive Call Option Agreement in full and all the shares of Zen-Game Shenzhen are transferred to Tiantianlaiwan; and (2) Tiantianlaiwan gives a 30 days prior written notice of termination.

The Registered Shareholders undertake to procure that all rights and obligations under the IP License Agreement will apply to any new holders of their shares in Zen-Games Shenzhen if any of the Registered Shareholders transfer, sell or dispose of their shares in Zen-Games Shenzhen leading to a change of their shareholding in Zen-Games Shenzhen.

Without the prior written consent of Tiantianlaiwan, the IP License Agreement takes priority over any other legal documentation that may be entered into by the Registered Shareholders and Zen-Games Shenzhen following the date of the IP License Agreement.

(3) Exclusive Call Option Agreement

Under the Exclusive Call Option Agreement, the Registered Shareholders have irrevocably granted Tiantianlaiwan or its designated purchaser the right to purchase all or some of (i) the shares in Zen-Game Shenzhen; and (ii) all or any part of the assets of Zen-Game Shenzhen ("**Equity Call Option**"). The purchase price payable by Tiantianlaiwan in respect of the transfer of such shares and assets upon exercise of the Equity Call Option shall be zero or the lowest price permitted under the PRC laws and regulations. Tiantianlaiwan or its designated purchaser shall have the right to purchase such proportion of the shares and assets in Zen-Game Shenzhen as it decides at any time.

In the event that PRC laws and regulations allow Tiantianlaiwan or us to directly hold all or part of the shares in Zen-Game Shenzhen and all or any part of its assets, and operate our mobile game operation business in the PRC, Tiantianlaiwan shall issue the notice of exercise of the Equity Call Option as soon as practicable, and the percentage of shares and assets purchased upon exercise of the Equity Call Option shall not be lower than the maximum percentage then allowed to be held by Tiantianlaiwan or us under PRC laws and regulations.

The Registered Shareholders have further undertaken to Tiantianlaiwan that, among others, it:

(a) shall not sell, assign, transfer or otherwise dispose of or create encumbrance over the shares of Zen-Game Shenzhen without the prior written consent of Tiantianlaiwan or as otherwise pledged under the Share Pledge Agreement;

(b) shall not increase or reduce or agree to the increase or reduction of capital investment in Zen-Game Shenzhen without the prior consent of Tiantianlaiwan;

(c) shall not dispose of or procure the management of Zen-Game Shenzhen to dispose of any of the assets of Zen-Game Shenzhen without the prior consent of Tiantianlaiwan, except in the ordinary course of business and provided that the value of such assets so disposed shall not exceed RMB2,000,000;

(d) shall not terminate or procure the management of Zen-Game Shenzhen to terminate any material contract or enter into any other contracts which may contradict such material contracts (which includes any agreement under which the amount involved exceeds RMB2,000,000, the Structured Contracts and any agreement of similar nature or content to the Structured Contracts) without the prior consent of Tiantianlaiwan;

(e) shall not procure Zen-Game Shenzhen to enter into any transactions which may have an actual impact on the assets, liabilities, operations, equity structures or other legal rights of Zen-Game Shenzhen without the prior consent of Tiantianlaiwan, save for transactions which are in the ordinary course of business of Zen-Game Shenzhen, or transactions which have been disclosed to Tiantianlaiwan and approved by Tiantianlaiwan;

(f) shall not agree to or procure Zen-Game Shenzhen to declare or in substance distribute any distributable dividends or agree to such distribution without the prior consent of Tiantianlaiwan;

(g) shall not agree to or procure Zen-Game Shenzhen to amend its articles of association without the prior consent of Tiantianlaiwan;

(h) shall ensure that Zen-Game Shenzhen does not provide or obtain loans or provide any guarantees or otherwise undertake any other action to guarantee, or undertake any material obligations (including obligations under which the amount payable by Zen-Game Shenzhen exceeds RMB2,000,000, obligations which restrict or hinder the due performance of obligations under the Structured Contracts by Zen-Game Shenzhen, obligations which restrict or prohibit the financial or business operations of Zen-Game Shenzhen, or any obligations which may result in change of the structure of the shares of Zen-Game Shenzhen) outside its ordinary course of business without the prior consent of Tiantianlaiwan;

(i) shall use their best endeavors to develop the business of Zen-Game Shenzhen and ensure compliance with laws and regulations by Zen-Game Shenzhen, and shall not take or fail to take any action which may prejudice the assets, goodwill or the effectiveness of operational licenses of Zen-Game Shenzhen;

(j) shall, prior to the transfer of the shareholders' interest to Tiantianlaiwan or its designated purchaser and without prejudice to our Shareholders' Rights Entrustment, execute all documents necessary for holding and maintaining the ownership of its shares of Zen-Game Shenzhen;

(k) shall, in its capacity as shareholders of Zen-Game Shenzhen and without prejudice to the Structured Contracts, procure directors nominated by them to exercise all rights to enable Zen-Game Shenzhen to perform its rights and obligations under the Exclusive Call Option Agreement, and shall replace any director or council member who fails to do so; and

(l) in the event that the consideration paid by Tiantianlaiwan or its designated purchaser for the transfer of all or some of the shares in Zen-Game Shenzhen exceeds RMB0, shall pay such excess amount to Tiantianlaiwan or its designated entity.

In addition, the Registered Shareholders undertake to Tiantianlaiwan that, in the event of a merger and subdivision of the Registered Shareholders, presentation by the Registered Shareholders or the Registered Shareholders being presented any application for winding up, liquidation, winding up restructuring or reconciliation, dissolution and liquidation of the Registered Shareholders pursuant to an order, application for involuntary dissolution of the Registered Shareholders or other reasons, or other circumstances which may affect the Registered Shareholders in exercising its direct or indirect interest in Zen-Game Shenzhen, they shall have made all necessary arrangement and sign all necessary documents such that the successor, administrator, liquidation committee and any other person which may as a result of the above events obtain the direct or indirect interest or relevant rights in Zen-Game Shenzhen shall not prejudice or hinder the enforcement of the Structured Contracts.

(4) ***Shareholders' Rights Entrustment Agreement***

Pursuant to the Shareholders' Rights Entrustment Agreement and the Supplemental Agreement to the Shareholders' Rights Entrustment Agreement, each of the Registered Shareholders has irrevocably authorized and entrusted Tiantianlaiwan and its designated persons (including but not limited to any liquidator in replacement of Tiantianlaiwan's director), but excluding any person who is not independent from Zen-Game Shenzhen or may give rise to any conflict of interest, to exercise all of its respective rights as shareholders of Zen-Game Shenzhen to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to convene and attend shareholders' meetings of Zen-Game Shenzhen in accordance with the articles of association of Zen-Game Shenzhen and the right to sign all shareholders' resolutions and other legal documents; (b) the right to exercise all other rights and voting rights of shareholders as prescribed under the articles of association of Zen-Game Shenzhen; (c) the right to exercise voting rights in respect of all matters discussed and resolved at the shareholders' meeting of Zen-Game Shenzhen (including but not limited to nominate and appoint the legal representatives, chairman, directors, supervisors, senior management members); (d) the right to handle the legal procedures of registration, approval and licensing of Zen-Game Shenzhen at the relevant government regulatory departments; (e) the right to supervise the operation and financial performance of Zen-Game Shenzhen, to declare dividends and to inspect the financial information of Zen-Game Shenzhen; (f) to institute legal proceedings against any director or management if such director or management conducted any act that harms the interest of Zen-Game Shenzhen or its shareholders; (g) to approve the amendments to the articles of association of Zen-Game Shenzhen; and (h) other shareholders' rights pursuant to applicable PRC laws and regulations and the articles of association of Zen-Game Shenzhen as amended from time to time.

In addition, each of the Registered Shareholders has irrevocably agreed that any person as successor of civil rights of Tiantianlaiwan or liquidator by reason of subdivision, merger, liquidation of Tiantianlaiwan or other circumstances shall have authority to replace Tiantianlaiwan to exercise all rights under the Shareholders' Rights Entrustment Agreement.

(5) ***Shareholders' Powers of Attorney***

Pursuant to the Shareholders' Powers of Attorney executed by each of the Registered Shareholders in favor of Tiantianlaiwan, and its designated persons (including but not limited to any liquidator in replacement of Tiantianlaiwan's director), but excluding any person who is not independent from Zen-Game Shenzhen or may give rise to any conflict of interest, each of the Registered Shareholders authorized and appointed Tiantianlaiwan, as its agent to act on its behalf to exercise or delegate the exercise of all its rights as shareholders of the Zen-Game Shenzhen. For details of the rights granted, please refer to the section headed "Structured Contracts — Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (4) Shareholders' Rights Entrustment Agreement" in the Prospectus.

The Shareholders' Power of Attorney shall constitute a part and incorporate terms of the Shareholders' Rights Entrustment Agreement and the Supplemental Agreement to the Shareholders' Rights Entrustment Agreement.

(6) Spouse Undertakings

Each of the spouses of Mr. Ye Sheng and Mr. Yang Min, being our Controlling Shareholders, signed the Spouse Undertakings on 27 October 2018. Pursuant to the Spouse Undertakings, each of Mr. Ye Sheng's and Mr. Yang Min's spouse has irrevocably undertaken that:

(a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts by each of Mr. Ye Sheng and Mr. Yang Min, and in particular, the arrangement as set out in the Structured Contracts in relation to the restrictions imposed on the direct or indirect interest in shares of Zen-Game Shenzhen, pledge or transfer the direct or indirect interest in shares of Zen-Game Shenzhen, or the disposal of the direct or indirect interest in shares of Zen-Game Shenzhen in any other forms;

(b) all the shares held by each of Mr. Ye Sheng and Mr. Yang Min in Zen-Game Shenzhen are assets solely owned by Mr. Ye Sheng or Mr. Yang Min (as the case may be) and she will not claim any shares of Zen-Game Shenzhen;

(c) no claims or actions against the Structured Contracts will be taken by the spouse and she will take all necessary actions to ensure the proper performance of the Structured Contracts;

(d) the spouse has not participated, is not participating and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to the PRC Operating Entities;

(e) the spouse who holds indirect interest in Zen-Game Shenzhen, will be subject to and abide by the terms of the Structured Contracts as if she was a signing party to such Structured Contracts, and she will sign any documents in the form and substance consistent with the Structured Contracts;

(f) she will not (whether directly or indirectly, actively or passively) act, or omit to act, against the purpose or intention of the Structure Contracts;

(g) the spouse authorizes Mr. Ye Sheng or Mr. Yang Min (as the case may be) or his authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's shares of Zen-Game Shenzhen (direct or indirect) in order to safeguard the interest of Tiantianlaiwan under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

(h) any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease, consolidation or other similar events relating to the direct or indirect interest in shares of Zen-Game Shenzhen of Mr. Ye Sheng or Mr. Yang Min;

(i) any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be invalid, prejudiced or otherwise adversely affected by reason of her loss of or restriction on capacity, death, divorce or other similar events; and

(j) all undertakings, confirmations, consents and authorizations under the Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Tiantianlaiwan and the spouses of Mr. Ye Sheng and Mr. Yang Min in writing.

In addition, each of the spouses of Ms. Zhang Wei, Ms. Li Wen, Mr. Zhang Dexiang, Ms. Xie Biyu, Mr. Kang Yonghong, Mr. Zhu Weijie, Mr. Huang Yucong and Mr. Yu Xi, being the ultimate shareholders of Dechangqing, Dewenshiji and Hezhongshiji, also signed their respective Spouse Undertakings on 3 January 2019, 14 February 2019 and 15 February 2019, in substantially the same terms. The ultimate shareholders who currently do not have a spouse, namely, Mr. Bao Zhoujia, Mr. Cheng Long and Mr. Lin Cong also signed their respective undertakings on 6 January 2019 and 7 January 2019, irrevocably undertake and ensure to procure their future spouses to sign the same Spouse Undertaking. The Spouse Undertakings had therefore been signed by the spouses of all the ultimate shareholders of the Registered Shareholders (where applicable and other than Wu Hu Shunrong 37 Interactive Entertainment Network Technology Co., Ltd.* (蕪湖順榮三七互娛網絡科技股份有限公司) which is a listed company) and the Directors believe are sufficient to protect the Company's interest in the event of death or divorce of the Registered Shareholders.

(7) Share Pledge Agreement

Pursuant to the Share Pledge Agreement, each of the Registered Shareholders irrevocably pledged and granted first priority security interests over all of its shares of Zen-Game Shenzhen together with all related rights thereto to Tiantianlaiwan as security for performance of the Structured Contracts and all direct, indirect or consequential damages and foreseeable loss of interest incurred by Tiantianlaiwan as a result of any event of default on the part of the Registered Shareholders Zen-Game Shenzhen and all expenses incurred by Tiantianlaiwan as a result of enforcement of the obligations of the Registered Shareholders and/or Zen-Game Shenzhen under the Structured Contracts (the "**Secured Indebtedness**").

Pursuant to the Share Pledge Agreement, without the prior written consent of Tiantianlaiwan, the Registered Shareholders shall not transfer the shares or create further pledge or encumbrance over the pledged equity interest. Any unauthorized transfer shall be invalid, and the proceeds of any transfer of the shares shall be first used in the payment of the Secured Indebtedness or deposited to such third party as agreed to by Tiantianlaiwan. The Registered Shareholders also waived any pre-emptive rights upon enforcement and agreed to any transfer of the pledged equity pursuant to the Share Pledge Agreement.

Upon the occurrence of an event of default, Tiantianlaiwan shall have the right to enforce the Share Pledge Agreement by written notice to the Registered Shareholders in one or more of the following ways:

(a) to the extent permitted under PRC laws and regulations, Tiantianlaiwan may request the Registered Shareholders to transfer all or some of its shares of the PRC Operating Entities to any entity or individual designated by Tiantianlaiwan at the lowest consideration permissible under the PRC laws and regulations;

(b) sell the pledged shares by way of auction or at a discount and have priority in the entitlement to the sales proceeds; and/or

(c) dispose of the pledged shares in other manner subject to applicable laws and regulations.

The Market Supervision and Management Bureau of Shenzhen approved the registration of the Share Pledge Agreement and published relevant information of the pledge on its official website on 17 December 2018.

(8) Loan Agreement

Pursuant to the Loan Agreement, Tiantianlaiwan agreed to provide loans to, among others, Zen-Game Shenzhen from time to time in accordance with the PRC laws and regulations and Zen-Game Shenzhen agreed to utilize the proceeds of such loans as necessary for the operations and development of the PRC Operating Entities.

Reasons for adopting the Structured Contracts

We conduct our business of developing and operating mobile games through our subsidiaries in the PRC and are thus considered to be engaged in the provision of value-added telecommunications services and Internet cultural business. PRC laws and regulations currently restrict the operation of value-added telecommunications services (except for e-commerce), in addition to imposing qualification requirements on the foreign owners and prohibit the operation of Internet culture services (except for music) business to foreign investors. To comply with relevant PRC laws and regulations, our mobile game operation business is directly conducted by the PRC Operating Entities and we do not hold any equity interest in the PRC Operating Entities. For further details of the foreign investment restrictions relating to the Structured Contracts, please refer to the sections headed "Structured Contracts — PRC laws and regulations relating to foreign ownership in the mobile game industry" and "Structured Contracts — Development in the PRC Legislation on Foreign Investment" on pages 152 to 155 and pages 169 to 175 of the Prospectus.

Risks relating to the Structured Contracts

There are certain risks that are associated with the Structured Contracts, including:

- If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Structured Contracts and the relinquishment of our interest in the PRC Operating Entities.

- The Structured Contracts may not be as effective in providing operational control as direct ownership. Zen-Game Shenzhen may fail to perform its obligations under the Structured Contracts.

- We may lose the ability to use and enjoy assets and licenses held by Zen-Game Shenzhen and its subsidiaries and branch company that are material to our business operations if Zen-Game Shenzhen or any of its subsidiaries declare bankruptcy or become subject to a dissolution or liquidation proceeding.

- The ultimate shareholders of the PRC Operating Entities may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.

- Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

- Our exercise of the option to acquire the shares in Zen-Game Shenzhen may be subject to certain limitations and we may incur substantial costs and expend significant resources to enforce the option under the Structured Contracts.

- Our Structured Contracts may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our combined net income and the value of your investment.

For further details of these risks, please refer to the section headed "Risk Factors — Risks Related to Our Structured Contracts" on pages 75 to 81 of the Prospectus.

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Structured Contracts and our compliance with the Structured Contracts:

(a) major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

(b) the Board will review the overall performance of and compliance with the Structured Contracts at least once a year;

(c) the Company will disclose the overall performance and compliance with the Structured Contracts in its annual reports and interim reports to update the Shareholders and potential investors;

(d) the Company and the Directors undertake to provide periodic updates in our annual and interim reports regarding the Qualification Requirement and our status of compliance with the Foreign Investment Law and its accompanying explanatory notes as stipulated under the section headed "Structured Contracts — Background of the Structured Contracts" and the latest development of the Foreign Investment Law and its accompanying explanatory notes as disclosed under the section headed "Structured Contracts — Development in the PRC Legislation on Foreign Investment", including the latest relevant regulatory development as well as our plan and progress in acquiring the relevant experience to meet the Qualification Requirement; and

(e) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Structured Contracts, review the legal compliance of Tiantianlaiwan and Zen-Game Shenzhen to deal with specific issues or matters arising from the Structured Contracts.

In addition, we believe that the Directors are able to perform their roles in the Group independently and the Group is capable of managing its business independently after the Listing under the following measures:

(a) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

(b) each of the Directors is aware of his/her fiduciary duties as a Director which requires, amongst other things, that he/she acts for the benefits and in the best interests of the Group;

(c) we have appointed three independent non-executive Directors, comprising over one-third of the Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of the Company and our Shareholders as a whole; and

(d) we will disclose in our announcements, circulars, annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by the Board (including independent non-executive Directors) relating to any business or interest of each Director and his/her associates that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under the Structured Contracts constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. As such, we have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Structured Contracts pursuant to Rule 14A.105 of the Listing Rules; (ii) the requirement of setting an annual cap for the transactions under the Structured Contracts under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Structured Contracts to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

(a) no change to the Structured Contracts will be made without the approval of the independent non-executive Directors;

(b) no change to the agreements governing the Structured Contracts will be made without the approval of our independent Shareholders;

(c) the Structured Contracts shall continue to enable the Group to receive the economic benefits derived by the PRC Operating Entities through (i) the Group's option, to the extent permitted under PRC laws and regulations, to acquire all or part of the shares of Zen-Game Shenzhen held by the Registered Shareholders at the lowest possible amount permissible under the applicable PRC laws and regulations; (ii) the business structure under which the net profit generated by the PRC Operating Entities is substantially retained by the Group, such that no annual cap shall be set on the amount of service fees payable to Tiantianlaiwan by Zen-Game Shenzhen under the Exclusive Consultancy and Technical Service Agreement; and (iii) the Group's right to control the management and operation of, as well as, in substance, all of the voting rights of Zen-Game Shenzhen as appointed by the Registered Shareholders;

(d) on the basis that the Structured Contracts provide an acceptable framework for the relationship between the Company and its subsidiaries (including branch company) in which the Company has direct shareholding, on one hand, and the PRC Operating Entities, on the other hand, that framework may be renewed and/or reproduced, upon the expiry of the existing arrangements, or, in relation to any existing or new wholly foreign owned enterprise or operating company engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Structured Contracts; and

(e) we will disclose details relating to the Structured Contracts on an ongoing basis.

Unwinding of the Structured Contracts

As at the date of this annual report, there has not been any unwinding of any Structured Contracts, nor has there been any failure to unwind any Structured Contracts when the restrictions that led to the adoption of the Structured Contracts are removed. For more details, please refer to the section headed "Structured Contracts — Termination of the Structured Contracts" of the Prospectus.

Annual Review by the Independent Non-Executive Directors and Auditor

Our independent non-executive Directors have reviewed the Structured Contracts and confirmed that:

(a) the transactions carried out during the year ended 31 December 2019 had been entered into in accordance with the relevant provisions of the Structured Contracts;

(b) no dividends or other distributions had been made by the PRC Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group;

(c) other than the Structured Contracts, no new contracts had been entered into, renewed and/or reproduced between the Group and the PRC Operating Entities during the year ended 31 December 2019; and

(d) the Structured Contracts had been entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable so far as the Group is concerned, and in the interest of the Company and its Shareholders as a whole.

Our auditor has confirmed in a letter to the Board that the transactions under the Structured Contracts have been approved by the Board, the transactions carried out during the year ended 31 December 2019 had been entered into in accordance with the relevant provisions of the Structured Contracts, and that no dividends or other distributions had been made by the PRC Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2019 are set out in note 32 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 at least 25% of the Company's total issued share capital held by the public as required under the Listing Rules.

INDEMNITY OF DIRECTORS

The Articles of Association provide that the Directors are entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain in or about the execution of their duty in their respective offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director. The Company has purchased and maintained Directors' liability insurance during the year under review, which provides appropriate coverage for the Directors.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2019 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.

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Company has adopted the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules on the Stock Exchange as its own code of corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Corporate Governance Code throughout the period from the Listing Date to 31 December 2019, save for deviation from code provision A.2.1 of the Corporate Governance Code. The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance.

Mr. Ye Sheng is both the chairman of the Board and the chief executive officer of the Group. The Board believes that vesting the roles of both chairman of the Board and chief executive officer in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within the Group. The Group considers that the balance of power and authority of the present arrangement will not be impaired as the Board comprises five other experienced and high-calibre individuals including another executive Director, one non-executive Director and three independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of the Group, the Board will make consultations with appropriate Board committees and senior management. Therefore, the Directors consider that the present arrangement is beneficial to and in the interest of the Company and the Shareholders as a whole and the deviation from Code A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors in March 2019.

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding Directors' securities transactions throughout the period from the Listing Date to 31 December 2019.

AUDITOR

The Shares were only listed on the Stock Exchange on 16 April 2019, and there has been no change in auditors since the Listing Date. The consolidated financial statements for the year ended 31 December 2019 have been audited by Ernst & Young, Certified Public Accountants, who are proposed for reappointment at the forthcoming AGM.

On behalf of the Board

Ye Sheng
Chairman, Executive Director and Chief Executive Officer

Hong Kong, 18 March 2020

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS

The Board currently comprises six Directors, of which two are executive Directors, one is non-executive Director 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. Ye Sheng	41	Chairman of the Board, chief executive officer and executive Director	28 August 2018
Mr. Yang Min	43	Vice chairman of the Board, chief technology officer and executive Director	28 August 2018
Non-executive Director			
Ms. Fu Hao	38	Non-executive Director	19 October 2019
Independent non-executive Directors			
Mr. Jin Shuhui	43	Independent non-executive Director	28 March 2019
Mr. Mao Zhonghua	41	Independent non-executive Director	28 March 2019
Mr. Yang Yi	41	Independent non-executive Director	28 March 2019

EXECUTIVE DIRECTORS

Mr. Ye Sheng, aged 41, is an executive Director, the chairman of the Board and the chief executive officer, responsible for overall management, strategic planning and business development of the Group. He is also (i) the chairman and general manager of Zen-Game Shenzhen; (ii) the supervisor of Zen-Game Shanghai; (iii) a director of International Mobile, Zen Interactive, Interactive HK and Tiantianlaiwan; and (iv) an executive director and general manager of Zhuhai Zhangyou.

Mr. Ye has more than 14 years of experience in the technology industry. Prior to joining the Group, he was the product director of the QQ Game Products Division in Tencent Technology (Shenzhen) Company Limited an operating company which is controlled by Tencent Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 700), from September 2004 to September 2010, primarily responsible for the overall strategic planning and product planning.

Mr. Ye obtained a bachelor's degree in science (theoretical and applied mechanics) from Sun Yat-sen University (中山大學), the PRC in June 2001.

Mr. Yang Min, aged 43, is an executive Director, the vice chairman of the Board and the chief technology officer, responsible for overall management, strategic planning, research and development of core technology of the Group. He is also (i) the vice chairman and deputy general manager of Zen-Game Shenzhen; (ii) the supervisor of Hudongyule, Zhuhai Zhangyou and Tiantianlaiwan; (iii) a director of Zen-Game HK; and (iv) an executive director and general manager of Zen-Game Shanghai.

Mr. Yang has more than 20 years of experience in the technology field. Prior to joining the Group, Mr. Yang worked as a product development supervisor in Zhongwang Commercial Mechanics Company Limited (中望商業機器有限公司), which is engaged in the provision of consultancy and technical services of computer software and hardware, from July 1998 to April 2003, primarily responsible for research and management related matters. From May 2003 to August 2005, he worked as a staff engineer in UTStarcom (China) Co., Ltd Shenzhen branch. From August 2005 to August 2010, Mr. Yang was the R&D director of the QQ Game Products Division in Tencent Technology (Shenzhen) Company Limited, an operating company which is controlled by Tencent Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 700), primarily responsible for the research and development management of the QQ Game Products Division.

Mr. Yang obtained a bachelor's degree in automation from Southwest Jiaotong University (西南交通大學), the PRC in July 1998.

NON-EXECUTIVE DIRECTOR

Ms. Fu Hao, aged 38, is a non-executive Director.

Ms. Fu currently holds positions in Shenzhen Decent Investment Co., Ltd and Prokids Technology Corp., Beijing which are owned as to 99.0% and approximately 11.1%, respectively, by a substantial shareholder of the Company. Since September 2018, Ms. Fu has been an investment operation director of Shenzhen Decent Investment Co., Ltd., which is owned as to 99.0% by a substantial shareholder of the Company. Since February 2019, Ms. Fu has been the director of Prokids Technology Corp., Beijing which is currently listed on the National Equities Exchange and Quotations system and owned as to approximately 11.1% by a substantial shareholder of the Company (stock code: 835785).

From 2006 to 2009, Ms. Fu was the operation director of interactive entertainment department of Shenzhen Tencent Computer Systems Company Limited, which is currently under the control of a company listed on the Stock Exchange. Ms. Fu served as the project director of game department of Shenzhen Taomi Technology Co., Ltd. (深圳市淘米科技有限公司) from 2009 to 2012. From 2012 to 2018, Ms. Fu was appointed as the deputy general manager of Shenzhen Taole Network Technology Co., Ltd. (深圳淘樂網絡科技有限公司).

Ms. Fu obtained a master's degree in communication and information system in Wuhan University, China in June 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jin Shuhui, aged 43, is an independent non-executive Director. He is primarily responsible for providing independent opinion and judgment to the Board.

Mr. Jin has over 14 years of experience in accounting, taxation, auditing and corporate finance. From December 2004 to June 2009, Mr. Jin worked in Deloitte Touche Tohmatsu with his last position as a senior auditor. From June 2009 to December 2010, he worked as a senior auditor in Shanghai Fengtou Investment Consultancy Company Limited (上海風投投資諮詢有限公司). From February 2011 to February 2013, Mr. Jin worked in Eunacon Perfect Alliance CPA Partnership ("**Eunacon**") with his last position as a tax senior manager. From January 2013 to October 2017, he was the financial controller of Jiangsu Lianhai Biological Science Limited* (江蘇聯海生物科技有限公司). Since October 2017, he re-joined Eunacon as a tax senior manager, primarily responsible for audit and tax matters.

Mr. Jin completed a course in management engineering (industrial accounting) in Anshan Iron and Steel College (鞍山鋼鐵學院) (which is now known as University of Science and Technology Liaoning) (遼寧科技大學) the PRC in July 1998. He was qualified as a certified public accountant and a certified tax agent in July 2000 and June 2001, respectively.

Mr. Mao Zhonghua, aged 41, is an independent non-executive Director. He is primarily responsible for providing independent opinion and judgment to the Board.

From March 2001 to June 2004, Mr. Mao worked as the operation manager and factory manager in Huafu Top Dyed Melange Yarn Co., Ltd. (formerly known as Shenzhen Huafu Textile Holdings Co. Ltd.), which is engaged in the production and sale of dyeing yarn, primarily responsible for production planning and operational management. From December 2005 to March 2012, he was the chief consultant of Shenzhen Shengpu Enterprise Management Consultancy Company Limited (深圳市聖普企業管理諮詢有限公司), primarily responsible for providing consultancy services and training. Mr. Mao founded Shenzhen Shamei Textile Co., Ltd. (深圳市莎美特紡織品有限公司) in March 2012 and has been its general manager since then, primarily responsible for the daily operation and management. Since August 2014, Mr. Mao has been an executive director of Hong Kong Sumtex Textile Company Limited, primarily responsible for the operation and management of the company. Since September 2017, Mr. Mao has been an independent non-executive director of Shandong IMEGAWARE Network Technology Co., Ltd.. Mr. Mao served as an independent non-executive director of Zen-Game Shenzhen from September 12, 2017 to September 18, 2018. On 4 July 2019, Mr. Mao was appointed as an executive director and the general manager of Shenzhen Yingkai Capital Company Limited (深圳英凱資本有限公司).

Mr. Mao obtained a master's degree of Business Administration from Shanghai University of Finance and Economics (上海財經大學), the PRC in October 2011.

Mr. Yang Yi, aged 41, is an independent non-executive Director. He is primarily responsible for providing independent opinion and judgment to the Board.

Since July 2006, Mr. Yang Yi has been working as a professor of the school of journalism and communication of Jinan University, the PRC. Since March 2017, Mr. Yang Yi has been an independent non-executive director of Guangzhou Kuyou Entertainment Technology Holdings Co. Ltd. (廣州酷遊娛樂科技股份有限公司), a company principally engaging in the development and operation of mobile games and online games. Mr. Yang Yi served as an independent non-executive director of Zen-Game Shenzhen from September 12, 2017 to September 18, 2018.

Mr. Yang Yi obtained a bachelor's degree of international enterprise management from Guangdong University of Foreign Studies (廣東外語外貿大學) in June 2001 and a doctoral degree of management from Sun Yat-sen University (中山大學), the PRC in June 2006.

SENIOR MANAGEMENT

Ms. Huang Haiyan, aged 41, is the chief financial officer of the Group. Ms. Huang joined the Group in June 2018 and is primarily responsible for overseeing the financial matters.

Ms. Huang has more than 17 years of experience in accounting and finance. Prior to joining the Group, Ms. Huang worked at PricewaterhouseCoopers' Shenzhen office from July 2001 to August 2004 with her last position as a senior auditor. From August 2004 to July 2005, she worked as a settlement analyst in Tencent Technology (Shenzhen) Company Limited, a company controlled by Tencent Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 700). From August 2005 to February 2008, she was the head of financial analysis in the financial department of Maigao Fine Hi-tech Materials (Shenzhen) Co., Ltd. (formerly known as GE High-technology Materials (Shenzhen) Co., Ltd.), primarily responsible for financial planning and analysis. From February 2008 to March 2011, Ms. Huang served as a senior finance manager at A8 New Media Group Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 800). From March 2011 to March 2015, she joined Boyaa Interactive International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 434), as the vice president and the joint company secretary, primarily responsible for the administrative and financial matters. From September 2015 to May 2016, she was the financial controller of Shenzhen TimeLink Technology Co., Ltd., a company listed on the NEEQ (stock code: 834974), primarily responsible for the administrative matters of the financial department.

Ms. Huang obtained a bachelor's degree in economics (finance and taxation) from Sun Yat-sen University (中山大學), the PRC in June 2001. She was admitted as a Chartered Global Management Accountant by the Chartered Institute of Management Accountants in May 2017.

Mr. Zhang Yong, aged 39, is a joint company secretary. He joined the Group in May 2017 as the secretary to the board of directors of Zen-Game Shenzhen and is primarily responsible for overseeing legal, internal control and company secretarial matters.

Prior to joining the Group, Mr. Zhang worked in Hytera Communications Corporation Limited, a digital telecommunications solutions provider, from August 2005 to June 2012 with his last position as the leader of the securities department, primarily responsible for matters relating to information disclosure and investor relations management. From November 2012 to July 2013, he was the secretary to the board of directors Zhuhai Blue Ocean Strategy Medical Co., Ltd., primarily responsible for the company's listing matters. From January 2014 to September 2014, Mr. Zhang rejoined Hytera Communications Corporation Limited and acted as the assistant to the chief financial officer and the head of the investment and finance department. He was the financial controller of Shenzhen Xtooltech Co., Ltd (an automotive electrical testing system provider) and Shenzhen Shangong Lighting Co., Ltd. (a company engaging in research and development of LED lighting products) from November 2014 to May 2015 and from September 2016 to April 2017, respectively.

Mr. Zhang obtained a bachelor's degree in economics (agricultural economic management) from Huazhong Agricultural University (華中農業大學), the PRC in June 2002. He also obtained a master's degree in national economics from Zhongnan University of Economics and Law (中南財經政法大學), the PRC in June 2005.

Mr. Zhu Weijie, aged 38, is the director of the operation department of the Group. He joined our Group in May 2011 as a game producer and was promoted to the current position in July 2013, primarily responsible for overseeing the product operations and promotion.

Mr. Zhu has over 12 years of experience in the gaming industry. Prior to joining the Group, he worked in Tencent Technology (Shenzhen) Company Limited, an operating company which is controlled by Tencent Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 700), from July 2006 to May 2011, and was a programmer responsible for testing and development as well as back-end development of games. Mr. Zhu obtained a bachelor's degree in software engineering from Dalian Jiaotong University (大連交通大學) (formerly known as Dalian Railway Institute (大連鐵道學院), the PRC in July 2003 and a master's degree in computer software and theory from Nanjing University (南京大學), the PRC in June 2006.

Ms. Chen Yan, aged 42, is the director of the commerce department of the Group. She joined the Group in November 2013 as a business director, primarily responsible for marketing and development of our payment channels and distribution channels.

Ms. Chen has over 18 years of experience in the technology industry. Prior to joining our Group, she worked in Runxun Communication Group Co., Ltd.* (潤迅通信集團有限公司) as a project manager for SMS chat product planning and value-added business from August 2000 to November 2003. She also worked in A8 New Media Group Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 800), from January 2004 to May 2011 with her last position as a senior manager of mobile back-end business unit. From June 2011 to March 2013, Ms. Chen was employed as a business director of the business development department by Shenzhen Lemon Network Technology Co., Ltd., a company listed on the NEEQ (stock code: 835924), primarily responsible for marketing and business cooperation matters. From March 2013 to September 2013, she worked in Shenzhen 7th Road Technology Co., Ltd. (深圳第七大道科技有限公司), a subsidiary of 7Road Holdings Limited which is a company listed on the Main Board of the Stock Exchange (stock code: 797) as a senior business manager, responsible for the business cooperation of two mobile games.

Ms. Chen obtained a bachelor's degree in e-government from Beijing Jiaotong University (北京交通大學), the PRC in June 2011.

CORPORATE GOVERNANCE REPORT

The Board of Directors is pleased to report to the shareholders on the corporate governance of the Company for the period from the Listing Date to 31 December 2019 (the "**Reporting Period**").

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules as the basis of the Company's corporate governance practices.

The Board is of the view that throughout the Reporting Period, the Company has complied with the code provisions as set out in the Corporate Governance Code, save for deviation from the code provision A.2.1 as disclosed in this Corporate Governance Report regarding the segregation of the roles of the chairman of the Board and chief executive officer of the Group. The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the Reporting Period.

The Company has also established written guidelines (the "**Employees Written Guidelines**") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board currently comprises six Directors, consisting of two executive Directors, one non-executive Director, and three independent non-executive Directors. The composition of the Board is as follows:

Executive Directors

Mr. Ye Sheng (Chairman and Chief Executive Officer)
Mr. Yang Min (Vice Chairman and Chief Technology Officer)

Non-executive Directors

Mr. Lin Cong (Resigned on 12 September 2019)
Ms. Li Wen (Resigned on 18 October 2019)
Ms. Fu Hao (Appointed on 19 October 2019)

Independent Non-executive Directors

Mr. Jin Shuhui
Mr. Mao Zhonghua
Mr. Yang Yi

The biographical information of the Directors are set out in the section headed "Profiles of Directors and Senior Management" on pages 48 to 53 of this annual report for the year ended 31 December 2019.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors. Eleven Board meetings were held in the Reporting Period.

Apart from regular Board meetings, the Chairman also held meetings with independent non-executive Directors only without the presence of other Directors during the Reporting Period.

A summary of the attendance records of the Directors at the Board meetings held during the Reporting Period is set out below:

Name of Directors	Attendance
Mr. Ye Sheng *(Chairman and Chief Executive Officer)*	11/11
Mr. Yang Min *(Vice Chairman and Chief Technology Officer)*	11/11
Mr. Lin Cong *(Resigned on 12 September 2019)*	4/6
Ms. Li Wen *(Resigned on 18 October 2019)*	6/7
Ms. Fu Hao *(Appointed on 19 October 2019)*	3/3
Mr. Jin Shuhui	9/11
Mr. Mao Zhonghua	10/11
Mr. Yang Yi	9/11

Chairman and Chief Executive Officer

Mr. Ye Sheng is both the chairman of the Board and the chief executive officer of the Group. The Board believes that vesting the roles of both chief executive officer and chairman of the Board in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within the Group. The Group considers that the balance of power and authority of the present arrangement will not be impaired as the Board comprises five other experienced and high-calibre individuals including another executive Director, one non-executive Director and three independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of the Group, the Board will make consultations with appropriate Board committees and senior management. Therefore, the Directors consider that the present arrangement is beneficial to and in the interest of the Company and the Shareholders as a whole and the deviation from Code A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

Independent Non-executive Directors

During the Reporting Period, 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 more than one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of one year, subject to renewal after the expiry of the then current term.

All the Directors of the Company are subject to retirement by rotation and re-election at the annual general meetings. Under the Articles of Association, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three of a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Articles of Association also provides that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment. The retiring Directors shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills.

The training records of the Directors for the year ended 31 December 2019 are summarized as follows:

Directors	Attended Internally – facilitated Briefings or Training, Seminars, Reading Materials
Executive Directors	
Mr. Ye Sheng *(Chairman)*	✔
Mr. Yang Min	✔
Non-Executive Directors	
Mr. Lin Cong *(Resigned on 12 September 2019)*	✔
Ms. Li Wen *(Resigned on 18 October 2019)*	✔
Ms. Fu Hao *(Appointed on 19 October 2019)*	✔
Independent Non-Executive Directors	
Mr. Jin Shuhui	✔
Mr. Mao Zhonghua	✔
Mr. Yang Yi	✔

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The emolument of the Directors is recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive and non-executive Directors and senior management is entitled to a basic salary which is reviewed annually.

In addition, each of the executive and non-executive Directors may receive a discretionary bonus as the Board may recommend. Such amount has to be approved by the Remuneration Committee. The remuneration package further includes other allowances, benefits in kind and defined contribution contributions.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report.

Audit Committee

The Audit Committee consists of three Independent Non-executive Directors, namely Mr. Jin Shuhui, Mr. Mao Zhonghua and Mr. Yang Yi. Mr. Jin Shuhui is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the Corporate Governance Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Reporting Period, the Audit Committee held two meetings to review the 2019 interim financial results and reports and significant issues on the financial reporting, appointment of external auditors and relevant scope of works and, and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance
Mr. Jin Shuhui *(Chairman)*	2/2
Mr. Mao Zhonghua	2/2
Mr. Yang Yi	2/2

Remuneration Committee

The Remuneration Committee consists of three members, namely Mr. Yang Yi, Mr. Ye Sheng and Mr. Mao Zhonghua. Mr. Yang Yi is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the Corporate Governance Code. The primary functions of the Remuneration Committee include determining, with delegated responsibility, or making recommendations to the Board on the remuneration packages of individual executive Directors and non-executive Director, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee met once during the Reporting Period to approve the terms of remuneration package of Ms. Fu Hao who was appointed as a non-executive Director on 19 October 2019.

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance
Mr. Yang Yi *(Chairman)*	1/1
Mr. Ye Sheng	1/1
Mr. Mao Zhonghua	1/1

The remuneration of the Directors and the senior management by band for the year ended 31 December 2019 is set out below:

Annual Income	Number of Persons
Below RMB1 million	6
RMB1 million to RMB2 million	1
Over RMB2 million	5

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Ye Sheng, Mr. Mao Zhonghua and Mr. Yang Yi. Mr. Ye Sheng is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the Corporate Governance Code.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of Directors, assessing the independence of Independent Non-executive Directors and reviewing the Board Diversity Policy.

In assessing the Board composition, the Nomination Committee would take into account, including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider candidates on merit and against the objective criteria, with due regard for the benefits diversity on the Board.

The Nomination Committee met once during the Reporting Period to consider and recommend to the Board on the appointment of Ms. Fu Hao as a Non-executive Director.

The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance
Mr. Ye Sheng *(Chairman)*	1/1
Mr. Mao Zhonghua	1/1
Mr. Yang Yi	1/1

Board Diversity Policy

The Company has adopted a board diversity policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company. The Company recognizes the importance of diversity of the Board as it promotes board effectiveness and enable better decisions to be made due to the lessened risk of group thinking.

Pursuant to the board diversity policy, the Nomination Committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to the board diversity policy in selection of Board candidates. Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity.

The Company aims to maintain an appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board to maintain high standards of corporate governance.

At present, the Nomination Committee considered that the Board is sufficiently diverse and selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience.

The Nomination Committee will review the board diversity policy and the measurable objectives at least annually to ensure the continued effectiveness of the Board.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a director nomination policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The director nomination policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience;
- Diversity in all aspects as set out in the Board Diversity Policy;
- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The director nomination policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Nomination Committee will review the director nomination policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code, such as the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including research and development management, sales and collection, financial reporting, human resources and information system management.

Under the Company's risk management and internal control systems, all business departments of the Company are responsible to collect information, analyze the corresponding risks and formulate the corresponding internal control system according to the risks. The internal audit department of the Group (the "**Internal Audit Department**") and the Audit Committee are responsible for evaluating the effect of risk management.

All divisions/departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each division/department.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Reporting Period.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the fraud risk and provided its findings to the Audit Committee.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the Reporting Period, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experiences and relevant resources.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns such as bribery, financial impropriety or other matters of the Company.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 67 to 70 of this annual report.

AUDITORS' REMUNERATION

A breakdown of the remuneration payable to the external auditors of the Company, Ernst & Young, in respect of audit services for the year ended 31 December 2019 is set out below:

Service Category	Fees Paid/Payable RMB
Audit Services	2,350,000
Non-audit Services*	250,000
Total	2,600,000

* Tax consulting services related to individual income tax

JOINT COMPANY SECRETARIES

Mr. Zhang Yong and Ms. Li Yan Wing Rita have been appointed as the Company's joint company secretaries. Ms. Li Yan Wing Rita is an executive director of corporate service of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters. Mr. Zhang Yong, head of Internal Audit Department of the Company and one of the joint company secretaries, has been designated as the primary contact person at the Company which would work and communicate with the external parties on the Company's corporate governance and secretarial and administrative matters.

During the Reporting Period, Mr. Zhang Yong and Ms. Li Yan Wing Rita have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels.

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

Convening an Extraordinary General Meeting

Pursuant to Articles 58 of the Articles of Association, any one or more members holding at the date of 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 shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders should follow the requirements and procedures as set out in the Articles of Association, for convening a general meeting.

Putting Forward Proposals at General Meetings

There is no provision allowing shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association. Members who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (For the attention of the Company Secretary)
Email: ir@zen-game.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company is endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Articles of Association was conditionally adopted by the Board on 28 March 2019 and became effective on the Listing Date. During the Reporting Period, the Company has not made any changes to its Articles of Association. An up to date version of the Articles of Association is also available on the Company's website and the Stock Exchange's website.

Policies relating to Shareholders

The Company has in place a Shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a dividend policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions, operational needs, capital requirements and factors of the Company and the Group as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year.

EY 安永

22/F, CITIC Tower,
1 Tim Mei Avenue,
Central,
Hong Kong

To the shareholders of Zengame Technology Holding Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Zengame Technology Holding Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 71 to 149, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

Key audit matters	How our audit addressed the key audit matters
Revenue recognition of self-developed games	
During the year ended 31 December 2019, the Group's revenue from self-developed games amounted to RMB342,748,000, representing 51.8% of the Group's total revenue. It was mainly derived from the sales of in-game virtual items. Players purchased the Group's in-game virtual items ("**Paying Players**") through various distribution platforms and payment vendors. Revenue was recognised (as a release from contract liabilities) ratably over the average playing period of Paying Players ("**the Player Relationship Period**"), and significant management judgements were involved in the estimation of the Player Relationship Period. The determination of Player Relationship Period in each game was made based on the Group's best estimate that took into account all known and relevant information at the time of assessment. References are made to the financial statements in note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates" and note 5 "Revenue, other income and gains" for the relevant disclosures.	Our audit procedure mainly included the following: — We obtained an understanding of and evaluated the key internal controls in relation to the assessment of the Player Relationship Period; — With the involvement of our IT specialist, we assessed the reasonableness of the expected Player Relationship Period adopted by management by testing the reliability of the data generated from the information systems regarding the historical users' consumption patterns on a sample basis; — We performed analytical review procedures to the contract liability to revenue ratio to assess the reasonableness of management's estimation; and — We recalculated revenue and contract liabilities, based on the respective Player Relationship Periods of each game on a sample basis.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS 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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional 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 Law Kwok Kee.

Ernst & Young
Certified Public Accountants
Hong Kong
18 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**662,100**	554,950
Cost of sales		**(337,147)**	(307,873)
Gross profit		**324,953**	247,077
Other income and gains	5	**17,638**	10,704
Selling and distribution expenses		**(80,893)**	(71,183)
Administrative expenses		**(43,210)**	(35,618)
Research and development costs		**(38,279)**	(28,296)
Other expenses		**(2,147)**	(1,169)
Finance costs	7	**(350)**	(495)
PROFIT BEFORE TAX	6	**177,712**	121,020
Income tax expense	10	**(17,193)**	(12,211)
PROFIT FOR THE YEAR		**160,519**	108,809
Attributable to:			
Owners of the parent		**160,519**	108,809
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	12	**RMB16.69 cents**	RMB13.27 cents
Diluted	12	**RMB16.69 cents**	RMB13.27 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR		**160,519**	108,809
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**8,408**	(4)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**8,408**	(4)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Change in fair value	17	**11,602**	(7,762)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**20,010**	(7,766)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**180,529**	101,043
Attributable to:			
Owners of the parent		**180,529**	101,043

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property and equipment	13	**3,652**	2,589
Investment in an associate	14	**—**	—
Intangible assets	15	**334**	—
Right-of-use assets	16	**6,355**	—
Equity instruments designated at fair value through other comprehensive income ("**FVOCI**")	17	**40,606**	51,796
Long-term prepayments, deposits and other receivables	21	**7,400**	5,000
Deferred tax asset	26	**546**	459
Total non-current assets		**58,893**	59,844
CURRENT ASSETS			
Trade receivables	18	**193,204**	98,373
Contract costs	19	**8,743**	19,683
Financial assets at fair value through profit or loss	20	**166,998**	131,915
Prepayments, deposits and other receivables	21	**18,648**	13,515
Time deposits with original maturity of over three months		**131,662**	—
Cash and cash equivalents	22	**161,843**	11,052
Total current assets		**681,098**	274,538
CURRENT LIABILITIES			
Trade payables	23	**71,731**	17,080
Contract liabilities	24	**15,558**	30,305
Other payables and accruals	25	**33,256**	23,321
Lease liabilities	16	**2,461**	—
Tax payable		**11,380**	3,460
Total current liabilities		**134,386**	74,166
NET CURRENT ASSETS		**546,712**	200,372
TOTAL ASSETS LESS CURRENT LIABILITIES		**605,605**	260,216

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities	16	4,080	—
Deferred tax liabilities	26	6,210	7,746
Total non-current liabilities		10,290	7,746
Net assets		595,315	252,470
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	8,946	334
Reserves	28/29	586,369	252,136
Total equity		595,315	252,470

Ye Sheng
Director

Yang Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital RMB'000 (Note 27)	Capital reserve RMB'000 (Note 29)	Statutory surplus reserve RMB'000 (Note 29)	Share-based payment reserve RMB'000 (Note 28)	Fair value reserve of financial assets at FVOCI RMB'000 (Note 29)	Exchange fluctuation reserve RMB'000 (Note 29)	Retained profits RMB'000	Total RMB'000
		Attributable to owners of the parent							
At 31 December 2017 and 1 January 2018		–	99,200	14,431	10,387	14,642	(2)	83,750	222,408
Profit for the year		–	–	–	–	–	–	108,809	108,809
Other comprehensive income for the year:									
Change in fair value of equity instruments designated at FVOCI		–	–	–	–	(7,762)	–	–	(7,762)
Exchange differences on translation of foreign operations		–	–	–	–	–	(4)	–	(4)
Total comprehensive income for the year		–	–	–	–	(7,762)	(4)	108,809	101,043
Transfer to statutory surplus reserve		–	–	10,716	–	–	–	(10,716)	–
Equity-settled share-based payment	28	–	–	–	7,019	–	–	–	7,019
Capital injection from shareholders	27	334	(334)	–	–	–	–	–	–
Dividend paid to the then shareholders		–	–	–	–	–	–	(78,000)	(78,000)
At 31 December 2018		334	98,866*	25,147*	17,406*	6,880*	(6)*	103,843 *	252,470
Effect of adoption of HKFRS 16		–	–	–	–	–	–	–	–
At 1 January 2019		334	98,866	25,147	17,406	6,880	(6)	103,843	252,470
Profit for the year		–	–	–	–	–	–	160,519	160,519
Other comprehensive income for the year:									
Transfer of fair value reserve of equity instruments designated at FVOCI		–	–	–	–	(13,810)	–	13,810	–
Change in fair value of equity instruments designated at FVOCI		–	–	–	–	11,602	–	–	11,602
Exchange differences on translation of foreign operations		–	–	–	–	–	8,408	–	8,408
Total comprehensive income for the year		–	–	–	–	(2,208)	8,408	174,329	180,529
Transfer to statutory surplus reserve		–	–	1,853	–	–	–	(1,853)	–
Equity-settled share-based payment	28	–	–	–	6,436	–	–	–	6,436
Issue of shares for the initial public offering ("**IPO**")		8,612	194,598	–	–	–	–	–	203,210
Shares repurchased		–	–	–	–	–	–	(2,072)	(2,072)
Interim 2019 dividend	11	–	–	–	–	–	–	(45,258)	(45,258)
At 31 December 2019		8,946	293,464*	27,000*	23,842*	4,672 *	8,402*	228,989 *	595,315

* These reserve accounts comprise the consolidated reserves of RMB586,369,000(2018: RMB252,136,000) in the consolidated statements of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
profit before tax:		177,712	121,020
Adjustments for:			
Finance costs	7	350	495
Dividend income	5	(174)	(174)
Interest income	5	(3,751)	(58)
Fair value gains on financial assets at fair value through profit and loss	5	(6,757)	(7,104)
(Gain)/loss on disposal of property and equipment		—	2
Depreciation of property and equipment	6	1,703	987
Equity-settled share-based payment expenses	6	6,436	7,019
Impairment of trade receivables	6	1,002	321
Depreciation of right-of-use assets	6	2,384	—
Amortisation of intangible assets	15	266	—
		179,171	122,508
Increase in trade receivables		(95,833)	(30,395)
Decrease in contract costs		10,940	6,643
Increase in prepayments, deposits and other receivables		(5,133)	(6,252)
(Increase)/decrease in long-term prepayments, deposits and other receivables		1,000	(1,000)
Decrease in amounts due from a related party		—	403
Increase/(decrease) in trade payables		54,651	(6,736)
Decrease in contract liabilities		(14,747)	(11,973)
Increase in other payables and accruals		9,935	5,180
Cash generated from operations		139,984	78,378
Income tax paid		(14,390)	(12,136)
Interest paid classified as operating cash flows		(350)	—
Net cash flows generated from operating activities		125,244	66,242

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income		174	174
Interest received		3,751	58
Fair value gains on financial assets at fair value through profit and loss ("**FVPL**")		6,757	7,104
Purchases of items of property, plant and equipment	13	(2,873)	(2,248)
Increase in long-term prepayments, deposits and other receivables		(3,400)	–
Proceeds from disposal of property, plant and equipment		107	15
Additions to intangible assets	15	(600)	–
Proceeds from disposal of equity investments designated at FVOCI		30,516	–
Increase in time deposits with original maturity of over three months		(131,662)	–
Purchases of equity instruments designated at FVOCI	34	(4,230)	(1,500)
Purchases of financial assets at fair value through profit or loss		(75,583)	(797,740)
Receipt from maturity of financial assets at fair value through profit or loss		40,500	815,703
Net cash flows (used in)/from investing activities		(136,543)	21,566
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		–	18,000
Proceeds from issue of shares on IPO		203,210	–
Principal portion of lease payments	30(b)	(2,198)	–
Repayment of bank loans		–	(25,600)
Interest paid		–	(495)
Dividends paid		(45,258)	(25,200)
Loans to the then shareholders		–	(52,800)
Shares repurchased		(2,072)	–
Net cash flows from/(used in) financing activities		153,682	(86,095)

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**142,383**	1,713
Cash and cash equivalents at beginning of year		**11,052**	9,342
Effect of foreign exchange rate changes, net		**8,408**	(3)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**161,843**	11,052
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	22	**107,677**	11,052
Time deposits with original maturity of less than three months	22	**54,166**	–
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS	22	**161,843**	11,052

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 28 August 2018 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered address of the office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The Company and its subsidiaries are principally engaged in developing and operating mobile games in the People's Republic of China (hereafter, the "**PRC**") and investment business in the PRC. There has been no significant change in the Group's principal activities during the year ended 31 December 2019.

In the opinion of the directors, the Company is ultimately controlled by Ye Sheng and Yang Ming.

Information about subsidiaries:

Particulars of the Company's principal subsidiaries as of 31 December 2019 are as follows:

Name	Date and place of incorporation/ registration and place of operations	Issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Zen Interactive Limited	31 August 2018 British Virgin Islands	USD50,000	100	–	Investment holding
Zengame Interactive Limited	13 September 2018 Hong Kong	HK$10	100	–	Investment holding
Shenzhen Tiantianlaiwan Technology Co., Ltd. (深圳市天天來玩科技有限公司) (hereafter, the "**Tiantianlaiwan**")	29 September 2018 Mainland China	RMB50,000,000	100	–	Provision of technical services
Shenzhen Zen Game Technology Company Limited (深圳市禪遊科技股份有限公司) (hereafter, the "**Zen Game**")	20 July 2010 Mainland China	RMB54,000,000	–	100	Developing and operating mobile games
Shenzhen Laiwan Technology Company Limited (深圳市來玩科技有限公司) (hereafter, the "**Shenzhen Laiwan**")	15 September 2014 Mainland China	RMB50,000,000	–	100	Developing and operating mobile games
Shenzhen Zen-Game Interactive Entertainment Company Limited (深圳市禪遊互動娛樂有限公司) (hereafter, the "**Chanyou Huyu**")	30 November 2011 Mainland China	RMB3,800,000	–	100	Developing and operating mobile games
Shenzhen Leqi Technology Company Limited (深圳市樂其科技有限公司) (hereafter, the "**Shenzhen Leqi**")	29 June 2015 Mainland China	RMB500,000	–	100	Developing and operating mobile games
Shenzhen Leduo Interactive Technology Company Limited (深圳市樂多互動科技有限公司) (hereafter, the "**Shenzhen Leduo**")	4 June 2015 Mainland China	RMB500,000	–	100	Developing and operating mobile games
Shanghai Zen-Game Technology Company Limited (上海禪遊科技有限公司) (hereafter, the "**Shanghai Chanyou**")	9 August 2016 Mainland China	RMB1,000,000	–	100	Developing and operating mobile games
International Mobile Entertainment Company Limited (hereafter, the "**International Mobile**")	26 February 2014 Hong Kong	HK$2,000,000	–	100	Developing and operating mobile games
Zen-Game (Hong Kong) Technology Company Limited (hereafter, the "**Zen Game HK**")	21 May 2015 Hong Kong	HK$10,000,000	–	100	Investment holding
Zhuhai Zhangyou Technology Company Limited (珠海市掌遊科技有限公司) (hereafter, the "**Zhuhai Zhangyou**")	11 March 2019 Mainland China	RMB500,000	–	100	Developing and operating mobile games

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2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for wealth management products and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK (IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 Leases, HK (IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK (SIC)-Int 15 *Operating Leases — Incentives* and HK (SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK (IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK (IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of- use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

As a lessee — Leases previously classified as operating leases (Continued)

Impacts on transition (Continued)

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

Financial impact at 1 January 2019

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	2,118
Increase in total assets	2,118
Liabilities	
Increase in lease liabilities	2,118
Increase in total liabilities	2,118
Decrease in retained earnings	—

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

Financial impact at 1 January 2019 (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	2,174
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	56
Commitments relating to leases of low-value assets	—
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments as at 1 January 2019	—
Lease liabilities as at 1 January 2019	2,118

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long- term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK (IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

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

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in an associate and a joint venture

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group‘s investments in an associate and a joint venture are stated in the consolidated statement of financial position at the Group‘s share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group‘s share of the post-acquisition results and other comprehensive income of the associate and the joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the Group’s investments in the associate and the joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate and a joint venture is included as part of the Group‘s investments in an associate and a joint venture.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Fair value measurement

The Group measures financial instruments such as equity instruments designated at FVOCI and financial assets at fair value through profit or loss at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

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

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

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

Impairment of non-financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person:
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personal services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Motor vehicles	25%
Electronic devices	20% to 33%
Leasehold improvements	Shorter of estimated useful lives and remaining lease terms

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Purchased software licence is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life.

Research and development costs

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

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	1-3 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Investments and other financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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

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

Impairment of financial assets

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

General approach

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

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

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

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

Government grants

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers

Revenue is recognised when the group has fulfilled the obligations stated in the contracts, and when the group has transferred control over relative goods or services to the customer, on the following bases.

(a) *Revenue generated from sales of in-game virtual items*

All of the Group's online games are operated using a Free-to-Play model. Players are able to download mobile games free from its third party distribution platforms. Players may choose to enhance their game experience by purchasing game beans and other virtual items.

Players purchase the Group's game beans and other virtual items ("**Paying Players**") through various distribution platforms and payment vendors. The distribution platforms collect the payment from the Paying Players and remit the cash to the Company net of commission charges which are pre-determined according to the relevant terms of the agreements entered into between the Group and distribution platforms or third party payment vendors. The Group may also collect the payment directly from third party payment vendors who will deduct their handling fees and the Group will in turn remit the commission charges to the distribution platforms.

As the Group takes the primary responsibilities of game development and game distribution, including selecting distribution platforms and payment vendors, providing customer services, hosting game servers, and controlling game and service specifications and pricing, it considers itself as a principal in such arrangement. Accordingly, revenue is recognised on a gross basis, which is the amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring promised services to a customer. The relevant service fees charged by the third-party payment vendors and the distribution platforms are recorded in cost of sales.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) *Revenue generated from sales of in-game virtual items (Continued)*

Upon the sales of game beans and other virtual items, the Group typically has an implied obligation to provide the service which enables the virtual items to be consumed and displayed in the respective games. As a result, the payments received from the sales of game beans and other virtual items are initially included in contract liabilities in the consolidated statement of financial position and are then recognised as revenue subsequently only when the services have been rendered. For the purposes of determining when services have been rendered to the respective Paying Players, the Group has determined the following:

- Consumable virtual items represent items that are extinguished after consumption in the form of charges levied on each round of games played. The Paying Players will not continue to benefit from the virtual items thereafter. Revenue is recognised (as a release from contract liabilities) when the items are consumed and the related services are rendered. If the Group is unable to track the consumption information of consumable virtual items, the related service period is estimated to be the average playing period of Paying Players (the "**Player Relationship Period**").

- Durable virtual items represent items that are accessible and beneficial to Paying Players over an extended period of time. Revenue is recognised ratably over the average life of durable virtual items for the applicable game, which the Group makes best estimates to be Player Relationship Period.

During the reporting periods, the related service period of almost all the virtual items is estimated to be Player Relationship Period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(b) Revenue from in-game information service

The Group provided in-game information service to several advertisement agencies. Advertisements generally take the form of video, pop-up ads and banners. Advertisers are normally charged on per click basis or per action basis, etc. Advertisement agencies are responsible for entering into contracts with advertisers, negotiating the advertising forms and price of the advertisements with the advertisers, while the Group's responsibility is limited to providing the mobile games as the platforms for the advertisement agencies to display the advertisement. Accordingly, the Group considered that the advertisement agencies take the primary responsibilities of the advertising arrangement and viewed the advertisement agencies to be its customers.

Proceeds earned from advertisers for displaying their advertisements in the Group's mobile games are shared between the Group and the advertisement agencies based on a predetermined rate according to the relevant terms of the agreements entered into between the Group and the advertisement agencies. In-game information service revenues are recognised when the relevant services are provided on a net basis to which the Group is entitled pursuant to the advertising contract.

(c) Revenue from third-party games

The Group also provides publishing to third party game development and operation companies. The revenue is recognised when service is rendered.

Other income

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

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

Contract liabilities

A contract liability is recognised when a payment is made received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract cost

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

The Company operates a share incentive scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group‘s operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**")

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each of the reporting periods until the vesting date reflects the extent to which the vesting period has expired and the Group‘s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities in various areas other than Mainland China. The Group's liability in respect of these plans is limited to the contributions payable at the end of each period. Contributions to these plans are expensed as incurred.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits (Continued)

Housing fund — Mainland China

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

Borrowing costs

All the borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in RMB. The Company's functional currency is RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the reporting periods. Differences arising on settlement or translation of monetary items are recognised in the profit or loss.

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

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting periods, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting periods and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Contractual arrangements

The PRC Operating Entities are mainly engaged in the provision of mobile game publishing in the PRC, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" that foreign investors are prohibited to invest.

As disclosed in note 2.1 to the financial statements, the Group exercises control over the PRC Operating Entities and enjoys all economic benefits of the PRC Operating Entities through the Contractual Arrangements.

The Group considers that it controls the PRC Operating Entities, notwithstanding the fact that it does not hold direct equity interest in the PRC Operating Entities, as it has power over the financial and operating policies of the PRC Operating Entities and receives substantially all of the economic benefits from the business activities of the PRC Operating Entities through the Contractual Arrangements. Accordingly, the PRC Operating Entities have been accounted for as subsidiaries during the reporting periods.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue deferred tax liabilities in respect of withholding taxes, arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends.

Principal vs agent

The Group recognises revenue of self-developed game on a gross basis.

The Group evaluates agreements with distribution channels and payment vendors in order to determine whether the Group acts as the principal in the arrangement with each party respectively, which it considers in determining if relevant revenue should be reported gross or net of the predetermined amount of the proceeds shared with them.

The determination of whether to record the revenue gross or net is based on an assessment of various factors, including but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has general inventory risk; (iii) changes the product or performs part of the services; (iv) has latitude in establishing the selling price; (v) has involvement in the determination of product and service specifications. The assessment is performed for all of the Group's mobile games.

During the reporting periods, the Group took primary responsibilities for game operation, providing customer services, hosting game servers, if needed, and controlling games and services. Accordingly, the Group recorded the revenue from self-developed games received through these third parties on a gross basis. Commissions paid to distribution channels and payment vendors are recorded as cost of sales.

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the reporting periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for expected credit losses on trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and other receivables is disclosed in note 18 and note 21 to the financial statements, respectively.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Fair value of equity-settled share-based payments

The equity-settled share-based payments were estimated as at the date of grant using a discounted cash flow models. This models requires the Group to make estimates about the expected dividend yield, weighted-average expected life, forfeiture rate, weighted average cost of capital, discount for lack of marketability, volatility, and hence they are subject to uncertainty. Further details are included in note 28 to the financial statements.

Fair value of equity investments

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques including market approach. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as Price/Earnings ratios ("**P/E**"), Entity Value/Revenue ratios and discount for lack of marketability. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. Further details are included in note 34.

Estimates of Player Relationship Period

The Group recognises the revenues ratably over the estimated average Player Relationship Period for durable virtual items and the consumable virtual items whose consumption information are unable to be tracked. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a quarterly basis. Future paying player usage patterns and behaviors may differ from the historical usage patterns and therefore the estimated average Player Relationship Period may change in the future. The Group will continue to monitor the estimated average Player Relationship Period, which may differ from the historical period, and any change in the estimate may result in the revenue being recognised on a different basis to that in prior periods. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in an accounting estimate.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in developing and operating mobile games.

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

Geographical information

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

Information about major customers

Revenue from a customer which amounted to more than 10% of the Group's revenue for the year ended 31 December 2019 is set out below:

	RMB'000
Customer A	114,113
Customer B	101,235

No revenue from services provided to a single customer amounted to 10% or more of the total revenue of the Group for the year ended 31 December 2018.

5. REVENUE, OTHER INCOME AND GAINS

Revenue from contracts with customers

(a) *Disaggregated revenue information*

	2019 RMB'000	2018 RMB'000
Revenue:		
Type of goods or services		
Self-developed games	342,748	475,778
Third-party games	12,352	5,499
In-game information service	307,000	73,673
Total revenue from contracts with customers	662,100	554,950
Timing of revenue recognition		
Services transferred over time	662,100	554,950

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Self-developed games	30,305	42,278

(b) *Performance obligations*

Information about the Group's performance obligations is summarised below:

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

Virtual items in self-developed games

The performance obligation from operation of self-developed games is satisfied over the estimated Player Relation Period as the customer simultaneously receives and consumes in-game virtual items provided by the entity's performance as the entity performs.

The distribution platforms collect the payment from the Paying Players and remit the cash to the Company net of commission charges which are pre-determined according to the relevant terms of the agreements entered into between the Group and distribution platforms or third party payment vendors. The payment is generally due within 30 to 90 days from the date of collecting the payment from the Paying Players.

Publishing service for third party games

The performance obligation is satisfied over time as the third-party game's developer simultaneously receives distribution services provided by the entity's performance as the entity performs. The payment is generally due within 30 to 90 days from the date of billing.

In-game information service

The performance obligation is satisfied over time as the advertiser simultaneously receives in-game information service provided by the entity's performance as the entity performs. The payment is generally due within 30 to 90 days from the date of billing.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 **RMB'000**	2018 RMB'000
Within one year	**15,558**	30,305

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Other income and gains

	2019 RMB'000	2018 RMB'000
Dividend income from equity instruments designated at FVOCI	174	174
Bank interest income	3,751	58
Fair value gains or losses on financial assets at fair value through profit or loss	6,757	7,104
Government grants related to income*	4,872	2,712
Technology services	—	613
Super deduction for input VAT	1,542	—
Others	542	43
	17,638	10,704

* Various government grants have been received from local government authorities in the PRC. There are no unfulfilled conditions and other contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2019 RMB'000	2018 RMB'000
Services fee charged by distribution platforms and payment vendors		202,340	297,506
Promotion expenses		80,893	71,183
Employee benefit expense (excluding directors' and chief executives' remuneration (note 8)):			
Wages and salaries		46,849	41,637
Pension scheme contributions (defined contribution scheme)		2,063	1,719
Equity-settled share-based payment expenses	28	6,436	7,019
Depreciation of property and equipment	13	1,703	987
Depreciation of right-of-use assets	16	2,384	—
Amortisation of intangible assets	15	266	—
Research and development costs		38,279	28,296
Minimum lease payments under operating leases		—	2,074
Impairment of trade receivables*	18	1,002	321
Auditors' remuneration		2,350	306
Listing expense		14,312	12,435

* The provision of impairment for trade receivables is included in other expenses in the consolidated statement of profit or loss.

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank loans	–	495
Interest on lease liabilities	350	–
	350	495

8. DIRECTORS' REMUNERATION

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

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	5,307	4,840
Pension scheme contributions	190	64
	5,497	4,904

(a) Independent non-executive directors in office as at the end of the year:

	2019 RMB'000	2018 RMB'000
Mr. Jin Shuhui (金書滙)	71	–
Mr. Mao Zhonghua (毛中華)	71	45
Mr. Yang Yi (陽翼)	71	45
	213	90

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director in office as at the end of the year:

Year ended 31 December 2019	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:			
Mr. Ye Sheng (叶升)	2,547	95	2,642
Mr. Yang Min (楊民)	2,547	95	2,642
	5,094	190	5,284
Non-executive directors:			
Ms. Fu Hao (付郝)	–	–	–

Year ended 31 December 2018	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:			
Mr. Ye Sheng (叶升)	2,375	32	2,407
Mr. Yang Min (楊民)	2,375	32	2,407
	4,750	64	4,814
Non-executive directors:			
Mr. Lin Cong (林蒽)	–	–	–
Ms. Li Wen (李雯)	–	–	–
	–	–	–

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8. DIRECTORS' REMUNERATION (Continued)

(c) Non-executive directors who resigned during the year:

Year ended 31 December 2019	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Mr. Lin Cong (林葱)	–	–	–
Ms. Li Wen (李雯)	–	–	–
	–	–	–

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two directors (2018: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2018: three) highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	3,787	3,173
Equity-settled share-based payment expense	4,332	4,684
Pension scheme contributions	133	41
	8,252	7,898

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

	2019	2018
HK$2,000,001 to HK$2,500,000	1	–
HK$2,500,001 to HK$3,000,000	1	2
HK$3,000,001 to HK$3,500,000	1	1

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

10. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

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

Zen Game was accredited as a "software enterprise" in 2015 under relevant PRC laws and regulation and was entitled with a preferential tax treatment (i.e., 2-year exemption and 3-year half payment) from its first profitable year. Therefore, Zen Game was exempted from income tax for its first two profitable years (i.e. 2015 and 2016) and was entitled to a preferential income tax rate of 12.5% from 2017 to 2019. Zen Game was also qualified as a "Key Software Enterprise" in November 2016 and the applicable tax rate for Zen Game was 10% for the years ended 31 December 2017 and 2018. Given that it is also qualified as a "Key Software Enterprise" in Mainland China, Zen Game enjoyed a preferential CIT rate of 10% for the year ended 31 December 2019.

Pursuant to the PRC Enterprise Income Tax Law ("**EIT Law**") and the respective regulations, the other PRC subsidiaries are subject to income tax at a statutory rate of 25% for the year.

Hong Kong profits tax have been provided at the rate of 16.5% on the Group's assembled profit derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates.

The major components of the income tax expense for the years are as follows:

	2019 **RMB'000**	2018 RMB'000
Current tax		
Charge for the year	**16,148**	14,112
Deferred tax (note 26)	**1,045**	(1,901)
Total tax charge for the year	**17,193**	12,211

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10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate of Mainland China (i.e., 25%) where the main operating entity is domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rates are as follows:

	2019		2018	
	RMB'000	**%**	RMB'000	%
Profit before tax	**177,712**		121,020	
Tax at the statutory tax rate	**44,428**	**25.0**	30,255	25.0
Effect of different applicable tax rates for specific jurisdictions or enacted by local authority	**(24,873)**	**(14.0)**	(18,786)	(15.5)
Super deduction for research and development expenses (a)	**(3,785)**	**(2.1)**	(2,650)	(2.2)
Expenses not deductible for tax	**814**	**0.5**	2,455	2.0
Tax losses utilised from previous periods	**(520)**	**(0.3)**	—	—
Tax losses not recognised	**1,129**	**0.6**	937	0.8
Tax charge at the Group's effective rate	**17,193**	**9.7**	12,211	10.1

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2018 and 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, the Group's earnings will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The total amounts of temporary difference associated with the investment in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB297,158,000 for the year ended 31 December 2019. (2018:RMB115,704,000).

10. INCOME TAX (Continued)

(a) According to relevant laws and regulations promulgated by the state Tax Bureau of the PRC, enterprises engaging in research and development activities were entitled to claim 175% of the research and development expenses from 1 January 2018 to 31 December 2019, as tax deductible expenses.

As at 31 December 2019 and 2018, the Group had tax losses arising in Mainland China of RMB881,000 and RMB4,339,000, respectively, which will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in a subsidiary that has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

The unrecognised deferred tax assets from tax losses will expire as followings:

	2019 **RMB'000**	2018 RMB'000
31 December 2021	**—**	2,186
31 December 2022	**—**	8,534
31 December 2023	**—**	4,339
31 December 2024	**881**	—
	881	16,516

11. DIVIDENDS

	2019 **HKD'000**	2018 HKD'000
Interim — HK$0.05 (2018: Nil) per ordinary share	**51,082**	—
Proposed final — HK$0.03 (2018: Nil) per ordinary share	**30,548**	—
	81,630	—

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue, during the year ended 31 December 2019.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share and diluted earnings per share for the year ended 31 December 2019 has been retrospectively adjusted for the effect of capitalisation issue as described more fully in note 27.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2019 and 2018.

The calculation of basic earnings per share is based on:

	2019 **RMB'000**	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**160,519**	108,809
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**961,812,849**	820,000,000

13. PROPERTY AND EQUIPMENT

	Electronic devices RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2019				
At 1 January 2019:				
Cost	1,855	2,422	567	4,844
Accumulated depreciation	(1,099)	(868)	(288)	(2,255)
Net carrying amount	756	1,554	279	2,589
At 1 January 2019, net of accumulated depreciation	756	1,554	279	2,589
Additions	421	2,075	377	2,873
Disposal	(1)	(106)	–	(107)
Depreciation provided during the year (note 6)	(440)	(828)	(435)	(1,703)
At 31 December 2019, net of accumulated depreciation	736	2,695	221	3,652
At 31 December 2019:				
Cost	2,275	4,391	944	7,610
Accumulated depreciation	(1,539)	(1,696)	(723)	(3,958)
Net carrying amount	736	2,695	221	3,652

13. PROPERTY AND EQUIPMENT (Continued)

	Electronic devices RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2018				
At 1 January 2018:				
Cost	1,230	969	415	2,614
Accumulated depreciation	(778)	(403)	(88)	(1,269)
Net carrying amount	452	566	327	1,345
At 1 January 2018, net of accumulated depreciation	452	566	327	1,345
Additions	642	1,454	152	2,248
Disposal	(17)	—	—	(17)
Depreciation provided during the year (note 6)	(321)	(466)	(200)	(987)
At 31 December 2018, net of accumulated depreciation	756	1,554	279	2,589
At 31 December 2018:				
Cost	1,855	2,422	567	4,844
Accumulated depreciation	(1,099)	(868)	(288)	(2,255)
Net carrying amount	756	1,554	279	2,589

14. INVESTMENT IN AN ASSOCIATE

	2019 RMB'000	2018 RMB'000
Share of net assets	**338**	338
Goodwill on acquisition	**–**	–
Provision for impairment	**(338)**	(338)
	–	–

Particulars of the Group's associate is as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Uniques Digital Company Limited* ("**Uniques Digital**")	HK$2,000,000 as registered capital	Hong Kong	35%	Mobile game development

* In 2015, the Group invested HK$1,000,000 in Uniques Digital and accounted for 23.53% of the total equity interest. In 2016, the Group invested an additional HK$1,000,000, and the equity interest percentage in Uniques Digital increased from 23.53% to 35%.

** The recoverable amount of the investment in Uniques Digital has been determined based on a value-in-use calculation using the Company's share of the present value of the estimated future cash flows expected to be generated by the associate from financial budgets covering a five-year period. The projected cash flows have been updated to reflect the current financial performance of Uniques Digital, and the key assumptions adopted for growth rates and discount rates used in the value-in-use calculations are based on management's best estimates. Growth rates are determined by considering both internal and external factors. The pre-tax discount rate applied to the cash flow projections is 30%. As a result of this analysis, management has recognised a full impairment charge of RMB338,000 during the year ended 31 December 2017. The impairment charge is recorded within other expenses in the statement of profit or loss.

15. INTANGIBLE ASSETS

	Software licence RMB'000	Total RMB'000
31 December 2019		
At 1 January 2019:		
Cost	—	—
Accumulated amortisation	—	—
Net carrying amount	—	—
At 1 January 2019, net of accumulated amortisation	—	—
Additions	600	600
Amortisation provided during the year (note 6)	(266)	(266)
Exchange realignment	—	—
At 31 December 2019, net of accumulated amortisation	334	334
At 31 December 2019:		
Cost	600	600
Accumulated amortisation	(266)	(266)
Net carrying amount	334	334

16. LEASES

The Group as a lessee

The Group has lease contracts for office buildings used for its operations. They generally have lease terms between 1 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	2019 RMB'000
At the beginning of the year	—
Additions	8,739
Depreciation charge (note 6)	(2,384)
At the end of the year	6,355

(b) *Lease liabilities*

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 RMB'000
Carrying amount at 1 January	—
New leases	8,739
Accretion of interest recognised during the year (note 7)	350
Payments	(2,548)
Carrying amount at 31 December	6,541
Analysed into:	
Current portion	2,461
Non-current portion	4,080

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

16. LEASES (Continued)

The Group as a lessee (Continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	350
Depreciation charge of right-of-use assets	2,384
Total amount recognised in profit or loss	2,734

(d) The total cash outflow for leases is disclosed in note 30, to the financial statements.

17. EQUITY INSTRUMENTS DESIGNATED AT FVOCI

	2019 **RMB'000**	2018 RMB'000
Listed equity investment:		
Genimous Technology Co., LTD. ("**Zhidu Technology**")*	**37,268**	49,571
Non-listed equity investments:		
Shenzhen Flying Fish Interactive Technology Company Limited ("**Flying Fish**")	**488**	725
Shenzhen Yiyou Technology Company Limited ("**Yiyou**")	**1,350**	1,500
Shenzhen Yanque Technology Company Limited ("**Yanque**")	**1,500**	—
	40,606	51,796

The above investments consist of investments in equity securities which were designated as equity instruments designated at FVOCI in financial assets.

17. EQUITY INSTRUMENTS DESIGNATED AT FVOCI (Continued)

In the years ended 31 December 2019 and 2018, the changes in the fair value and income tax effect in respect of the Group's equity instruments designated at FVOCI recognised in other comprehensive income are as below:

	2019 RMB'000	2018 RMB'000
The gross fair value change in respect of the Group's equity instruments designated at FVOCI recognised in other comprehensive income	15,096	(10,350)
Income tax effect	(3,494)	2,588
Changes in fair value on equity instruments designated at FVOCI	11,602	(7,762)

Equity instruments designated at FVOCI include investments in equity shares of listed and non-listed companies. The Group holds non-controlling interests (less than 10%) in these companies. These investments were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature.

* The listed equity investment represents the Group's shareholding in Zhidu Technology, a third party company listed on the Shenzhen Stock Exchange. In 2019, the Group sold 3,760,562 shares of Zhidu Technology and the accumulated gain recognised in other comprehensive income of RMB13,810,000 was transferred to retained earnings.

18. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	194,512	98,679
Provision for expected credit losses	(1,308)	(306)
	193,204	98,373

The Group's trade receivables primarily consist of those due from third-party distribution platforms and payment vendors who collected payment from Paying Players on behalf of the Group. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing and are generally on terms within 90 days.

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18. TRADE RECEIVABLES (Continued)

An ageing analysis of the trade receivables as at the end of each of the year, based on the recognition date of gross trade receivables and net of provision, is as follows:

	2019 RMB'000	2018 RMB'000
Within 90 days	183,909	85,056
91 to 180 days	7,309	9,688
181 to 1 year	1,468	2,742
1 year to 2 years	518	887
	193,204	98,373

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk and days past due of the trade receivables to measure the expected credit losses. During the year, the expected losses rates are determined as follows:

31 December 2019	Amount RMB'000	Expected credit loss rate	Impairment RMB'000
Trade receivables aged:			
Within 1 year	193,304	0.32%	618
1 to 2 years	721	28.15%	203
2 to 3 years	487	100.00%	487
	194,512		1,308

31 December 2018	Amount RMB'000	Expected credit loss rate	Impairment RMB'000
Trade receivables aged:			
Within 1 year	97,747	0.27%	261
1 to 2 years	932	4.83%	45
	98,679		306

18. TRADE RECEIVABLES (Continued)

The movements in the allowance for expected credit losses of trade receivables are as follows:

	Note	2019 RMB'000	2018 RMB'000
At beginning of year		**(306)**	(1,328)
Provision for expected credit losses	6	**(1,002)**	(321)
Write-off		**—**	1,343
At the end of year		**(1,308)**	(306)

19. CONTRACT COSTS

Contract costs are mainly related to contract acquisition costs. Management expects that incremental relevant distribution service fees paid as a result of obtaining customer contracts are recoverable, which meet the contract acquisition cost criteria when the Group considers the Paying Player as its customers. The Group has therefore capitalised them as contract costs in the amounts of RMB19,683,000 and RMB8,743,000 as at 31 December 2018 and 2019, respectively.

Capitalised relevant service fees are amortised when the related revenue is recognised, which is consistent with the pattern of recognition of the associated revenue. The amounts of amortisation were RMB297,506,000 and RMB202,340,000 for the years ended 31 December 2018 and 2019 and there was no impairment loss in relation to the costs capitalised.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Wealth management products issued by licensed banks, at fair value	**166,998**	131,915
	166,998	131,915

Wealth management products issued by several licensed banks were denominated in RMB, with expected rates of return ranging from 3.65% to 4.50% and 3.00% to 5.22% per annum for the years ended 31 December 2019 and 2018, respectively. The return on all these wealth management products is not guaranteed, and hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. None of these investments are past due. The fair values are based on cash flows discounted using the expected return based on management judgement and are within categorised level 2 of the fair value hierarchy.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Non-current portion		
Prepayments	3,400	—
Deposits and other receivables	4,000	5,000
	7,400	5,000
Current portion		
Prepayments	5,994	5,925
Deposits and other receivables	12,654	7,590
	18,648	13,515

The amounts due from non-trade debtors were unsecured and interest-free. None of the above assets was either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The credit exposures of the above balances have not had significantly increase in credit risk since initial recognition, the Group is required to provide for 12-month expected credit losses. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward looking macroeconomic data. During the year, the Group estimated that the expected loss rate for the above receivables was insignificant.

22. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	161,843	11,052
Denominated in:		
RMB	81,093	8,244
HK$	80,277	2,552
US$	473	256

The cash and bank balances of the Group denominated in RMB amounted to RMB81,093,000 (2018:RMB8,244,000) at the end of the reporting period. The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the year, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 3 months	63,812	8,406
3 to 6 months	4,447	4,311
6 months to 1 year	2,316	4,085
1 year to 2 years	1,156	278
	71,731	17,080

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

24. CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 2019 and 2018 and will be expected to be recognised within one year:

	2019 RMB'000	2018 RMB'000
Self-developed games	15,558	30,305

Deferred online game revenue primarily consists of the unamortised revenue from sales of game beans and other virtual items for online games, where there is still an implied obligation to be provided by the Group.

25. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Salary and welfare payables	21,677	18,071
Other tax payables	9,228	4,530
Other payables	2,351	720
	33,256	23,321

Other payables are non-interest-bearing and repayable on demand.

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26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	2019 RMB'000	2018 RMB'000
Deferred tax assets and liabilities:		
At 1 January	**(7,287)**	(11,775)
Deferred tax credited to profit or loss during the year (note 10)	**(1,045)**	1,901
Deferred tax charged to other comprehensive income	**2,668**	2,587
At 31 December	**(5,664)**	(7,287)

	2019 RMB'000	2018 RMB'000
Deferred tax assets		
Tax loss (note 10)	**1,206**	2,234
Fair value adjustments arising from equity instruments designated at FVOCI	**143**	69
Provision for accounts receivable (note 10)	**521**	421
	1,870	2,724

	2019 RMB'000	2018 RMB'000
Deferred tax liabilities		
Fair value adjustments arising from equity instruments designated at FVOCI	**7,332**	9,926
Fair value adjustment arising from wealth management products (note 10)	**202**	85
	7,534	10,011
	(5,664)	(7,287)

26. DEFERRED TAX (Continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	546	459
Net deferred tax liabilities recognised in the consolidated statement of financial position	6,210	7,746
	(5,664)	(7,287)

27. SHARE CAPITAL

Shares

	2019 RMB'000	2018 RMB'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each as at 31 December 2019 (2018: 50,000,000,000 ordinary shares)	440,000	440,000
Issued and fully paid:		
1,018,274,000 ordinary shares as at 31 December 2019 (2018: 38,000,000 ordinary shares)	8,946	334

31 December 2019

27. SHARE CAPITAL (Continued)

Shares (Continued)

A summary of movements in the Company's share capital is as follows:

	Notes	Number of shares in issue	Share capital
			RMB'000
At 31 December 2018 and 1 January 2019		38,000,000	334
Capitalisation issue	(a)	782,000,000	6,882
Global offering (excluding shares issued under the over-allotment option)	(b)	180,000,000	1,540
Over-allotment	(c)	21,672,000	190
Repurchase shares	(d)	(3,398,000)	—
At 31 December 2019		1,018,274,000	8,946

(a) 782,000,000 shares were allotted and issued to the shareholders of the Company immediately prior to the listing of the Company's shares on 16 April 2019 by way of capitalisation.

(b) On 16 April 2019, the Company was listed on the Main Board of the Stock Exchange with the stock code 2660 and made an offering of 180,000,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK$1.23 per share.

(c) The over-allotment option was partially exercised and the Company allotted and issued 21,672,000 additional shares, representing approximately 12.04% of the total number of the offer shares initially available under the global offering, at HK$1.23 per share on 15 May 2019.

(d) In December 2019, 3,398,000 ordinary shares were repurchased but not yet cancelled by the Company.

28. SHARE-BASED PAYMENTS

Hezhong Century Technology Company Limited ("**Hezhong**") is a limited liability company controlled by Mr. Ye Sheng and Mr. Yang Min incorporated in the PRC since May 2012 and has become a shareholder of Zen Game since June 2012. Except for holding an equity interest in Zen Game, Hezhong did not conduct any other business. On 1 June 2016 and 1 June 2018, Hezhong granted 3,502,850 and 617,000 restricted shares units ("**RSUs**"), representing 2,980,300 underlying shares of and 5.52% equity interest in Zen Game to the senior management and key employees ("**Grantees**") of the Group respectively to retain them for the continuing operation and development of the Group. The RSUs enabled the Grantees to indirectly entitle to the ownership of Zen Game through their respective equity interests in Hezhong.

28. SHARE-BASED PAYMENTS (Continued)

The vesting period of the RSUs is determined to be two years with 50% each which will be vested at the end of each anniversary, or four years with 25% each which will be vested at the end of each anniversary, or six years with 10% each which will be vested at rear of the initial two anniversaries and 20% at the end of each of the following four anniversaries.

Movements during the year

Movements in the number of shares held for the Scheme and awarded shares for the years ended 31 December 2019 and 2018 are as follows:

	Number of shares held for the Share Award Scheme	Number of awarded shares	Total
At 31 December 2017	2,872,387	630,463	3,502,850
Granted	617,000	—	617,000
Vested	(630,462)	630,462	—
At 31 December 2018	2,858,925	1,260,925	4,119,850
Vested	(1,056,213)	1,056,213	—
At 31 December 2019	1,802,712	2,317,138	4,119,850*

* Representing 62,561,080 underlying shares of, and approximately 6.14% of the total issued shares of the Company (excluding the shares repurchased).

As part of the Restructuring, the Company issued shares to Hezhong Power Limited which is the nominee of trust and beneficially owned by the Grantees in exchange for controlling Hezhong's equity interest in Zen Game. The percentage of the equity interest held by Hezhong Power Limited in the Company is identical to the percentage of the equity interest in Zen Game indirectly held by the Grantees through Hezhong. There was no change in any other vesting conditions. There was no significant incremental value noted before and after the modification given the Zen Game has carried out substantially all of the businesses owned by the Group.

The expense recognised for employee services received during the year is shown in the following table:

	2019 RMB'000	2018 RMB'000
Share-based payment expenses	**6,436**	7,019

The directors of the Company appointed an independent valuer, Value Link Group, to estimate the fair values of the above RSUs as at the respective grant dates.

28. SHARE-BASED PAYMENTS (Continued)

Movements during the year (Continued)

The following table lists the key inputs to the model used for the valuation of the above RSUs granted on each grant date:

	Granted on 1 June 2016	Granted on 1 June 2018
Weighted average cost of capital (%)	24	22
Discount for lack of marketability (%)	27	15
Weighted average share price (RMB per share)	5.06	14.97
Model used	Discounted cash flow method	Discounted cash flow method

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 75 of the financial statements.

(a) Capital reserve

The capital reserve of the Group represents the capital contribution from its then shareholders of Zen Game and the difference between the par value of the shares issued and the proceeds received.

(b) Statutory surplus reserve

In accordance with the Company Law of the PRC and the respective articles of association of the group companies, each of the companies that is domiciled in the PRC is required to allocate 10% of its profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The statutory surplus reserve is non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

(c) Fair value reserve of financial assets at FVOCI

The fair value reserve of financial assets at FVOCI comprises all revaluation changes arising from the equity instruments designated at FVOCI.

(d) Share-based payment reserve

The share-based payment reserve comprises the fair value of the share-based payment granted and exercised, as further explained in Note 28 to the financial statements.

29. RESERVES (Continued)

(e) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies not using RMB as functional currencies. The reserve is dealt with in accordance with the accounting policy set out in Note 2.4 to the financial statements.

30. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB8,739,000 and RMB8,739,000, respectively, in respect of lease arrangements for property (2018: nil and nil).

(b) Changes in liabilities arising from financial activities:

	Lease liabilities RMB'000	**Dividends payable** RMB'000
At 1 January 2019	—	—
Changes from financing cash flows	(2,198)	(45,258)
New leases	8,739	—
Interest expense	350	—
Interest paid classified as operating cash flows	(350)	—
Dividends declared	—	45,258
At 31 December 2019	6,541	—

(c) Total cash outflow for leases

The total cash out flow for leases included in the statement of cash flow is as follows:

	Year ended 31 December 2019 RMB'000
Within operating activities	350
Within financing activities	2,198

31 December 2019

31. COMMITMENTS

The Group did not have any significant commitments as at 31 December 2019.

32. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	9,347	8,415
Equity-settled share-based payment expense	4,894	5,139
Pension scheme contributions	369	123
	14,610	13,677

Further details of directors' and the chief executive's emoluments are included in note 8.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of each of the year are as follows:

31 December 2019

Financial assets	Financial assets at amortised cost RMB'000	Financial assets at FVPL RMB'000	Financial assets at FVOCI RMB'000	Total RMB'000
Equity instruments designated at FVOCI	–	–	40,606	40,606
Trade receivables	193,204	–	–	193,204
Financial assets included in prepayments, deposits and other receivables	4,953	–	–	4,953
Financial assets included in long-term prepayments, deposits and other receivables	4,000	–	–	4,000
Financial assets at fair value through profit or loss	–	166,998	–	166,998
Time deposits with original maturity of over three months	131,662	–	–	131,662
Cash and cash equivalents	161,843	–	–	161,843
	495,662	166,998	40,606	703,266

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2019 (Continued)

Financial liabilities	**Financial liabilities at amortised cost RMB'000**
Trade payables	**71,731**
Financial liabilities included in other payables and accruals	**24,028**
Lease liabilities	**6,541**
	102,300

31 December 2018

Financial assets	Financial assets at amortised cost RMB'000	Financial assets at FVPL RMB'000	Financial assets at FVOCI RMB'000	Total RMB'000
Equity instruments designated at FVOCI	—	—	51,796	51,796
Trade receivables	98,373	—	—	98,373
Financial assets included in prepayments, deposits and other receivables	13,515	—	—	13,515
Financial assets included in long-term prepayments, deposits and other receivables	5,000	—	—	5,000
Financial assets at fair value through profit or loss	—	131,915	—	131,915
Cash and cash equivalents	11,052	—	—	11,052
	127,940	131,915	51,796	311,651

Financial liabilities	Financial liabilities at amortised cost RMB'000
Trade payables	17,080
Financial liabilities included in other payables and accruals	18,791
	35,871

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2019, the fair values of the Group's financial assets or liabilities approximated to their respective carrying amounts.

Management has assessed that the carrying amounts of cash and cash equivalents, trade receivables, amounts due from a related party, financial assets included in prepayments, deposits and other receivables, trade payables, amounts due to related parties, financial liabilities included in other payables and accruals and interest-bearing bank borrowings reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) Financial instruments in level 1

The fair value of the listed securities is determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on the quoted market prices (level 1: quoted price (unadjusted) in active markets) without deduction for transaction costs.

(b) Financial instruments in level 2

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

The fair values of wealth management products have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including the expected future interest return on maturity of the wealth management products. The directors believe that the estimated fair values resulting from the valuation techniques, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in the consolidated statements of profit or loss, are reasonable, and that they were the most appropriate values at the end of each of the year.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

(c) Financial instruments in level 3

Level 3 instruments of the Group's assets are equity investments in unlisted companies and a listed company.

The fair values of the equity investments in unlisted companies have been estimated using the market approach. Major assumptions used in the valuation include discount of lack of marketability, P/E ratio, etc. The fair value of the equity investment in a listed company has been estimated using the closing price quoted in the active stock market discounted by the percentage of the lack of marketability during the lockup period of three years after the exchange date as further described in note 17 to the financial statements.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity instruments designated at FVOCI:				
Listed equity investment	37,268	–	–	37,268
Non-listed equity investments	–	–	3,338	3,338
Financial assets at fair value through profit or loss	–	166,998	–	166,998
	37,268	166,998	3,338	207,604

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity instruments designated at FVOCI:				
Listed equity investment	–	–	49,571	49,571
Non-listed equity investments	–	–	2,225	2,225
Financial assets at fair value through profit or loss	–	131,915	–	131,915
	–	131,915	51,796	183,711

During the year, there were no transfers of fair value measurements between Level 1 and Level 2. The movements in fair value measurements within Level 3 during the year are as follows:

	2019 RMB'000	2018 RMB'000
Equity instruments designated at FVOCI:		
At 1 January	**51,796**	60,646
Total gains recognised in other comprehensive income	**15,096**	(10,350)
Transfer out of the third level	**(37,268)**	–
Purchases	**4,230**	1,500
Disposals	**(30,516)**	–
At 31 December	**3,338**	51,796

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Below is a summary of significant unobservable inputs in recurring Level 3 to the valuation of financial instruments together with a quantitative sensitivity analysis at the end of each of the year:

	Valuation technique	Significant unobservable input	Range of inputs As at 31 December 2019	2018
Equity instruments designated at FVOCI:				
Listed equity investment	Market approach	Discount for lack of marketability %	**–**	10
Non-listed equity investments	Market approach	Discount for lack of marketability %	**30**	30
		Price-Earnings ratio ("**P/E ratio**")	**16.5**	14.2

The fair value of equity instruments designated at FVOCI is affected by changes in the discount for lack of marketability, P/E ratio If the discount for lack of marketability had increased/decreased by 10% with all other variables held constant, the fair value of equity instruments designated at FVOCI for the years ended 31 December 2019 and 2018 would have been approximately RMB334,000 and RMB5,180,000 lower/higher, respectively.

If the P/E ratio had increased/decreased by 10% with all other variables held constant, the fair value of equity instruments designated at FVOCI for the years ended 31 December 2019 and 2018 would have been approximately RMB334,000 and RMB222,500 higher/lower, respectively.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, equity instruments designated at FVOCI and cash and cash equivalents. The Group has various other financial assets and liabilities such as trade receivables, other receivables, trade payables and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group's transactions are mainly denominated in RMB. Certain of the Group's cash and bank deposits are denominated in HK$. In addition, the Company will pay dividends in HK$ in the future. Any significant exchange rate fluctuations of HK$ against RMB may have financial impacts on the Group.

The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rate, and no hedging transaction or forward contract arrangement was made by the Group during the reporting period. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies based on the RMB and HK$ exchange rate movement.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/(decrease) in HK$ rate %	Increase/(decrease) in profit before tax RMB'000	Increase/(decrease) in equity* RMB'000
2019			
If the RMB weakens against the Hong Kong dollar	**5**	**–**	**7,828**
If the RMB strengthens against the Hong Kong dollar	**(5)**	**–**	**(7,828)**
2018			
If the RMB weakens against the Hong Kong dollar	5	–	6
If the RMB strengthens against the Hong Kong dollar	(5)	–	(6)

* Excluding retained profits

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, trade receivables, and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades mainly with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by product type.

The following table demonstrates the concentrations of credit risk of the total trade receivables which were due from the Group's five largest distribution platforms or payment vendors.

	As at 31 December	
	2019	2018
	%	%
Percentage of total trade receivables due from:		
Group's five largest trade receivables	**84.0**	73.0

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 18 to the financial statements.

The Group has applied the simplified approach to provide for impairment for ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for impairment of all trade receivables and contract assets. To measure the ECLs, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The ECLs also incorporate forward-looking information. Management estimated that the expected credit loss rate for the Group's trade receivables are 0.7% and 0.3% as at 31 December 2019 and 2018, respectively.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operation and bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of each of the year, based on the contractual undiscounted payments, was as follows:

	As at 31 December 2019					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 year to 2 years RMB'000	over 2 years RMB'000	Total RMB'000
Trade payables	71,731	–	–	–	–	71,731
Financial liabilities included in other payables and accruals	24,028	–	–	–	–	24,028
Lease liabilities	–	679	2,040	2,759	1,488	6,966
	95,759	679	2,040	2,759	1,488	102,725

	As at 31 December 2018			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade payables	12,717	4,363	–	17,080
Financial liabilities included in other payables and accruals	18,791	–	–	18,791
	31,508	4,363	–	35,871

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

The directors of the Company review the asset-liability ratio, which is total assets divided by total liability, on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the raising of new debts as well as the redemption of the existing debts, and manage the asset-liability ratios. The Group's overall strategy remained unchanged during the year.

The asset-liability ratios as at the end of each of the year are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total assets	**739,991**	334,382
Total liabilities	**144,676**	81,912
Asset-liability ratio	**20%**	24%

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the year is as follows:

	2019 RMB'000	2018 RMB'000
CURRENT ASSETS		
Due from subsidiaries	162,113	—
Prepayments, other receivables and other assets	361	334
Financial assets at fair value through profit or loss	706	—
Cash and cash equivalents	1,079	—
Total current assets	164,259	334
CURRENT LIABILITIES		
Due to subsidiaries	1,251	—
Total current liabilities	1,251	—
NET ASSETS	163,008	334
EQUITY		
Issued capital	8,946	334
Reserves	154,062	—
Total equity	163,008	334

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2019	–	–	–	–
Loss for the year	–	–	(5,908)	(5,908)
Exchange differences on translation of foreign operations	–	8,633	–	8,633
Total comprehensive income for the year	–	8,633	(5,908)	2,725
Issue of shares	198,667	–	–	198,667
Shares repurchased	–	–	(2,072)	(2,072)
Interim 2019 dividend	–	–	(45,258)	(45,258)
At 31 December 2019	198,667	8,633	(53,238)	154,062

37. EVENTS AFTER THE REPORTING DATE

Up to the date of this report, management is not aware of any cases of COVID-19 infection among employees of the Group and the outbreak did not pose any significant impact to the Group's operations. The Group currently has set up a response plan in place. Management will continue to monitor and assess the ongoing development and respond accordingly.

38. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 18 March 2020.

DEFINITIONS

"AGM"	the annual general meeting of the company proposed to be held on Monday, 18 May 2020
"ARPPU"	monthly average revenue per paying user, which represents the revenue for the period divided by the number of paying players in such period, and then divided by the number of months in such period
"Articles of Association"	the articles of associations of the Company conditionally adopted by the Board on 28 March 2019 and became effective on the Listing Date
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of Directors of the Company
"China" or "PRC"	the People's Republic of China excluding for the purpose of this interim report, Hong Kong, the Macau Special Administrative Region and Taiwan
"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
"Company"	Zengame Technology Holding Limited (禪遊科技控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands on 28 August 2018
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Sky-zen Capital Limited, J&L Y Limited, Mr. Ye Sheng and Mr. Yang Min
"Corporate Governance Code"	code on corporate governance practices contained in Appendix 14 to the Listing Rules
"DAU"	daily active users
"Director(s)"	the director(s) of the Company
"Exclusive Call Option Agreement"	the exclusive call option agreement entered into by and among Tiantianlaiwan, Zen-Game Shenzhen and the Registered Shareholders dated 27 October 2018

"Exclusive Consultancy and Technical Service Agreement"	the exclusive consultancy and technical service agreement entered into by and among Tiantianlaiwan, Zen-Game Shenzhen and the Registered Shareholders dated 27 October 2018
"Foreign Investment Law"	the Foreign Investment Law of the PRC (中華人民共和國外商投資法), as enacted by the thirteenth National People's Congress on 15 March 2019 which will be effective on 1 January 2020
"Free-to-Play"	a business model which players can play games for free, but may need to pay for virtual items sold in games to enhance their game experience
"Group"	collectively, the Company and its subsidiaries
"HK$", "HKD" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hudongyule"	Shenzhen Zen-Game Hudongyule Co.,Ltd.* (深圳市禪遊互動娛樂有限公司), one of the PRC Operating Entities established under the laws of the PRC on 30 November 2011 and wholly-owned by Zen-Game Shenzhen
"IP License Agreement"	the intellectual property license agreement dated 27 October 2018
"Leduohudong"	Shenzhen Leduohudong Technology Co., Ltd.* (深圳市樂多互動科技有限公司), one of the PRC Operating Entities established under the laws of the PRC on 4 June 2015 and wholly-owned by Zen-Game Shenzhen
"Leqi Technology"	Shenzhen Leqi Technology Co., Ltd.* (深圳市樂其科技有限公司), one of the PRC Operating Entities established under the laws of the PRC on 29 June 2015 and wholly-owned by Zen-Game Shenzhen
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Date"	16 April 2019, the date on which the Shares were listed on the Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange

"Loan Agreement"	a financial assistance framework agreement entered into by and among Tiantianlaiwan, Zen-Game Shenzhen and the Registered Shareholders dated 25 March 2019
"MAU"	monthly active users
"Model Code"	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules
"MPU"	monthly playing users
"Nomination Committee"	the nomination committee of the Board
"PRC Operating Entities"	the entities we control through the Structured Contracts, being Zen-Game Shenzhen, Hudongyule, Shenzhen Laiwan, Leduohudong, Leqi Technology, Zen-Game Shanghai and Zen-Game Shanghai (Shenzhen Branch), the financial accounts of which have been consolidated and accounted for as if they were subsidiaries of the Company by virtue of the Structured Contracts
"Prospectus"	the prospectus issued by the Company dated 3 April 2019
"Registered Shareholders"	direct shareholders of Zen-Game Shenzhen, being Shenzhen Tianchan Technology Co., Ltd.* (深圳市天禪科技有限公司), Shenzhen Dingyi Technology Co., Ltd.* (深圳市鼎翌科技有限公司), Shenzhen Dechangqing Technology Co., Ltd.* (深圳市德常青科技有限公司), Shenzhen Hezhongshiji Technology Co., Ltd.* (深圳市和眾世紀科技有限公司), Shenzhen Palaya Technology Co., Ltd.* (深圳市帕拉亞科技有限公司), Shenzhen Befortune Investment Co., Ltd.* (深圳市伯符投資有限公司), Xizang Taifu Wenhua Chuanmei Co., Ltd.* (西藏泰富文化傳媒有限公司) and Shenzhen Dewenshiji Technology Co., Ltd.* (深圳市德文世紀科技有限公司)
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"RSU (s)"	the restricted share unit(s) to be granted under the RSU Scheme
"RSU Nominee"	Hezhong Power Limited, a limited liability company incorporated in the BVI and a wholly-owned subsidiary of Core Trust which will hold the Shares underlying the RSUs for the benefit of eligible participants pursuant to the RSU Scheme

"RSU Scheme"	the restricted share unit scheme approved and adopted by a resolution of the Board dated 9 October 2018, the principal terms of which are summarized under the section headed "Statutory and General Information — F. RSU Scheme and Share Option Scheme — 1. RSU Scheme" in Appendix IV to the Prospectus
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 28 March 2019, the principal terms of which are summarized under the section headed "Statutory and General Information — F. RSU Scheme and Share Option Scheme — 2. Share Option Scheme" in Appendix IV to the Prospectus
"Share Pledge Agreement"	the share pledge agreement entered into by and among the Registered Shareholders, Zen-Game Shenzhen and Tiantianlaiwan dated 27 October 2018
"Shareholder(s)"	the Shareholder(s) of the Company
"Shareholders' Rights Entrustment Agreement"	the shareholders' rights entrustment agreement entered into by and among the Registered Shareholders, and Tiantianlaiwan dated 27 October 2018, and as amended and supplemented by a supplemental agreement dated 8 January 2019
"Shenzhen Laiwan"	Shenzhen Laiwan Technology Co., Ltd.* (深圳市來玩科技有限公司), one of the PRC Operating Entities established under the laws of the PRC on 15 September 2014 and wholly-owned by Zen-Game Shenzhen
"Spouse Undertakings"	collectively, the spouse undertakings executed by Ms. Xie Yingying (the spouse of Mr. Ye Sheng) and Ms. Jiang Qian (the spouse of Mr. Yang Min) dated 27 October 2018, and the spouse undertakings executed by Mr. Zeng Liqing (the spouse of Ms. Zhang Wei), Mr. Wang Haiyang (the spouse of Ms. Li Wen) and Ms. Liu Ying (the spouse of Mr. Zhang Dexiang) dated 3 January 2019, and the spouse undertakings executed by Ms. Jiang Siyang (the spouse of Mr. Zhu Weijie), Ms. Chen Jie (the spouse of Mr. Huang Yucong) dated 14 February 2019, and the spouse undertakings executed by Ms. Huang Ping (the spouse of Mr. Yu Xi), Ms. Sun Xiaohui (the spouse of Mr. Kang Yonghong) and Mr. Chen Jialei (the spouse of Ms. Xie Biyu) dated 15 February 2019
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Structured Contracts"	collectively, the Exclusive Consultancy and Technical Service Agreement, the IP License Agreement, the Exclusive Call Option Agreement, the Share Pledge Agreement, the Shareholders' Rights Entrustment Agreement, the Shareholders' Powers of Attorney, the Spouse Undertakings and the Loan Agreement, details of which are set out in the section headed "Structured Contracts" in the Prospectus
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Tiantianlaiwan"	Shenzhen Tiantianlaiwan Technology Co., Ltd.* (深圳市天天來玩科技有限公司), a limited liability company established under the laws of PRC on 29 September 2018 and an indirect wholly-owned subsidiary of the Company
"Zen-game HK"	ZEN-GAME (HONGKONG) LIMITED (禪遊(香港)有限公司), a limited liability company incorporated in Hong Kong on 21 May 2015 and an indirect wholly-owned subsidiary of the Company
"Zen-game Shanghai"	Shanghai Zen-Game Technology Co., Ltd.* (上海禪遊科技有限公司), one of the PRC Operating Entities established under the laws of the PRC on 9 August 2016 and wholly-owned by Zen-Game Shenzhen
"Zen-game Shanghai (Shenzhen Branch)	Shanghai Zen-Game Technology Co., Ltd. (Shenzhen Branch)* (上海禪遊科技有限公司深圳分公司), a branch Company of Zen-Game Shanghai established under the laws of the PRC on 2 September 2016
"Zen-Game Shenzhen"	Shenzhen Zen-Game Technology Co. Ltd.* (深圳市禪遊科技股份有限公司), a company established as a limited liability company under the laws of the PRC on 20 July 2010 and converted into a joint stock company with limited liability in September 2015 and an indirect wholly-owned subsidiary of the Company
"Zhuhai Zhangyou"	Zhuhai Zhangyou Technology Co., Ltd.* (珠海市掌遊科技有限公司), a limited liability company established under the laws of PRC on 11 March 2019 and an indirect wholly-owned subsidiary of the Company
"%"	per cent