CMGE
中手游

为热爱而生

CMGE Technology Group Limited
中手游科技集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0302)

ANNUAL REPORT 2019

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. XIAO Jian *(Chairman and Chief Executive Officer)*
Mr. SIN Hendrick *(Vice Chairman)*

Non-executive Directors

Mr. MA Yuntao
Mr. TANG Yanwen

Independent Non-executive Directors

Ms. NG Yi Kum
Mr. TANG Liang
Mr. HO Orlando Yaukai

AUDIT COMMITTEE

Ms. NG Yi Kum *(Chairlady)*
Mr. MA Yuntao
Mr. TANG Liang

REMUNERATION COMMITTEE

Mr. HO Orlando Yaukai *(Chairman)*
Mr. SIN Hendrick
Ms. NG Yi Kum

NOMINATION COMMITTEE

Mr. XIAO Jian *(Chairman)*
Mr. TANG Liang
Mr. HO Orlando Yaukai

CORPORATE GOVERNANCE COMMITTEE

Ms. NG Yi Kum *(Chairlady)*
Mr. SIN Hendrick
Mr. HO Orlando Yaukai

AUTHORISED REPRESENTATIVES

Mr. XIAO Jian
Mr. SIN Hendrick

COMPANY SECRETARY

Ms. LAI Yau Yan Gladys

HONG KONG LEGAL ADVISERS

Kirkland & Ellis

AUDITOR

Ernst & Young
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

COMPLIANCE ADVISER

First Shanghai Capital Limited

REGISTERED OFFICE

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Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS

10th Floor, Building No. 4
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Zhongkang North Road
Futian District
Shenzhen
Guangdong Province
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

China Guangfa Bank
Shenzhen Branch, Binhai Sub-branch

China Merchants Bank
Shenzhen Branch, Weisheng Building
Sub-branch

Guangdong Huaxing Bank
Shenzhen Branch

China Everbright Bank
Shenzhen Futian Branch

COMPANY'S WEBSITE

http://www.cmge.com

STOCK CODE

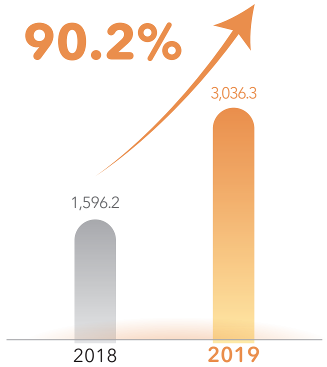
0302

DATE OF LISTING

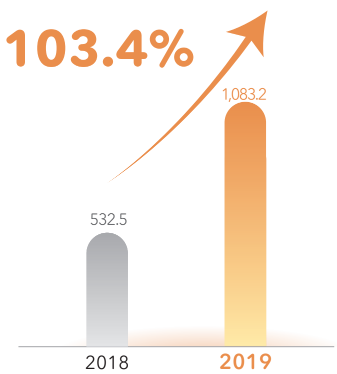
31 October 2019

FINANCIAL SUMMARY

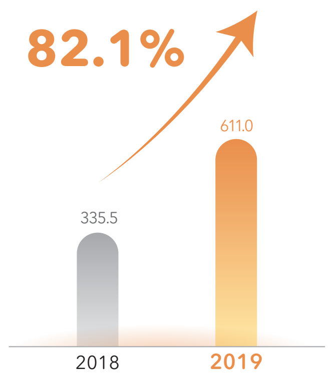
REVENUE
(RMB in millions)



GROSS PROFIT
(RMB in millions)

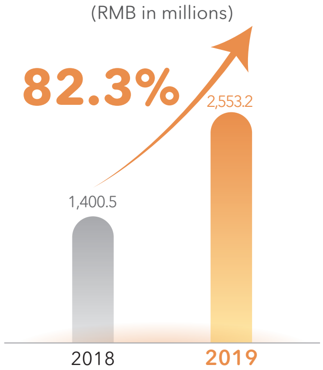


ADJUSTED NET PROFIT [2]
(RMB in millions)

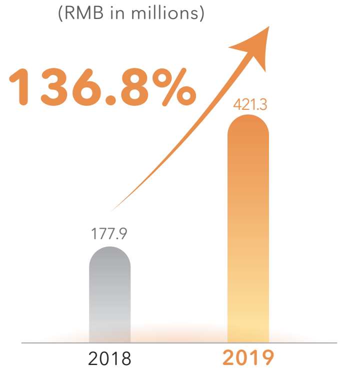


The increase in the Group's revenue was driven by its strong game publishing, game development and IP licensing businesses.

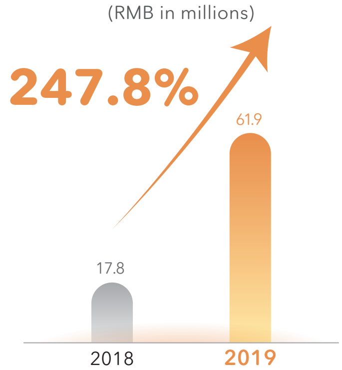
REVENUE FROM GAME PUBLISHING
(RMB in millions)



REVENUE FROM GAME DEVELOPMENT
(RMB in millions)



REVENUE FROM IP LICENSING
(RMB in millions)



FOUR-YEAR FINANCIAL SUMMARY

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue [1]	3,036,301	**1,596,204**	**1,012,791**	**1,001,163**
Gross profit [1]	1,083,198	**532,470**	**340,455**	**349,390**
Profit for the year [1]	243,213	315,973	264,995	188,499
Adjusted net profit [1][2]	611,007	**335,465**	**264,995**	**188,499**
Earnings per Share (RMB)	13.15 cents	17.28 cents	14.72 cents	10.47 cents
Adjusted earnings per Share (RMB) [2]	32.34 cents	**18.64 cents**	**14.72 cents**	**10.47 cents**
Total assets	5,208,124	3,013,204	1,115,527	1,289,226
Total liabilities	1,496,510	1,150,475	207,874	599,607
Total equity	3,711,614	1,862,729	907,653	689,619

Notes:

(1) The Group's revenue, gross profit, profit for the year and adjusted net profit for the years ended 31 December 2016 and 2017 have excluded the revenue, gross profit and profit for the year generated from the Group's card and board games business, which business was disposed of by the Group on 31 December 2017.

(2) "Adjusted net profit" is not defined under the HKFRS. It is defined by the Group as net profit attributable to owners of the parent excluding (i) equity-settled share-based expense; and (ii) Listing expenses. The adjusted net profit more closely reflects the Group's operating results, after excluding the above-mentioned non-operating items. "Adjusted earnings per Share" are the Group's adjusted net profit divided by the weighted average number of Shares during 2019, as adjusted by the Shares issued as a result of the Listing.

Dear Shareholders,

On behalf of the Board, I am pleased to present the first annual results of the Group for the year ended 31 December 2019.

The year of 2019 was a vigorous and fruitful year for the Group. Based on the excellent track record of the Group, the Company successfully listed its Shares on the Stock Exchange on 31 October 2019. This marked the beginning of a new chapter for the Company and injected greater momentum and confidence into the long-term development of the Group in the future. One recent development was that in March 2020, the Company became an eligible security for "Southbound Trading" under "Shenzhen-Hong Kong Stock Connect". This stock connect arrangements opened the door to a much wider pool of potential investors in the Company.

REVIEW OF 2019

The Group achieved significant growth in 2019. The Group's revenue increased by approximately 90.2% year-on-year to RMB3,036.3 million for the year ended 31 December 2019, and the Group's adjusted net profit increased by approximately 82.1% year-on-year to RMB611.0 million for the year ended 31 December 2019. As at 31 December 2019, the Group had 1.2 million average MPUs, and recorded an average paying user conversion rate of 7.5%, both of which are believed to be higher than the industry average.

In 2019, leveraging on its rich experience and cutting-edge vision in the mobile game industry, the Group continued to consolidate and enhance its close cooperation with IP owners, game developers and channel promoters, and successfully launched a number of popular games thanks to the continuous improvement and enhancement of its game publishing capabilities. *Dragon Ball – Awakening* (龍珠覺醒) ranked first in the Top Free Games List of Apple's App Store on the first day of its launch on 26 February 2019, and became a recommended game of the week on Apple's App Store in the first week of its launch. This game was also recognised as a star product (明星產品) by Mobile Hardcore Alliance (硬核聯盟) and as one of the 2019 Top 10 Most Popular Mobile Games (二零一九年度十大最受歡迎移動遊戲) at the China Game Industry Annual Conference (中國遊戲產業年會). In addition, in 2019, the Group launched 33 new games, including *The National Gunlord – The Frontier* (全民槍神:邊境王者), *Martyn Palace* (烈焰皇城), *Dragon Hunter H5* (神龍獵手H5), *Zero World* (消零世界) and *The Gate to Adventures* (冒險之門). *A number of older games, such as One Piece – the Road of the Strong* (航海王強者之路), *Naruto – Ninja Master* (火影忍者–忍者大師) and *The Story of the Flying Mortal H5* (凡人飛仙傳H5), continued to contribute stable gross billings and revenue to the Group. In 2019, revenue derived from the Group's game publishing business reached RMB2,553.2 million, representing a year-on-year increase of approximately 82.3%.

In 2019, the Group continued to invest in its in-house game development capabilities, and successfully launched a number of self-developed games, which achieved good performance. Most notably, *World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), a game developed in-house by the Company's wholly-owned subsidiary, Wenmai Hudong, recorded peak gross billing in a single month of over RMB200 million, and nearly 1.3 million average MAUs. This game's stable long-term retention rate made it a popular product in the "Legend" mobile game category in 2019. In addition, *War Song – the Creation* (熱血戰歌之創世), another web game developed in-house by Wenmai Hudong, recorded peak gross billing in a single month of over RMB56 million, and over 2 million average MAUs. This game became a popular game in the "Legend" web game category in 2019. Further, Beijing Softstar, a subsidiary of the Company, developed a popular single-player PC game *Monopoly 10* (大富翁10), which was published by a third party partner of the Group on the STEAM platform and was the best domestically-developed game in terms of sales volume on the STEAM platform in October and November 2019. In 2019, revenue derived from the Group's game development business reached RMB421.3 million, representing a year-on-year increase of approximately 136.8%.

In 2019, the Group also made good progress in its IP licensing business, and entered into new licensing cooperation in areas such as games, films and television during the year. In 2019, revenue derived from the Group's IP licensing business reached RMB61.9 million, representing a year-on-year increase of approximately 247.8%. The Group's IP licensing business has become a new revenue and profit growth driver of the Group.

In 2019, the Group entered into in-depth exclusive licensing cooperation with top social network platforms in China for a number of its popular IP games. For example, the Group cooperated with ByteDance (字節跳動) on *One Piece: The Voyage* (航海王熱血航線) and *The King of Fighters: All Stars* (全明星激鬥), and with Tencent on *The National Gunlord – The Frontier* (全民槍神:邊境王者).

In 2019, the Group continued to prioritise its investments in IPs and developers with a view to supporting the IP resources required for the Group's development, and to attract and retain star producers and research and development talents. This strategy provided the Group with strong high-quality game supply capabilities. Shenzhen Zhongshouyou, a consolidated operating entity of the Group, as a limited partner, formed the Partnership with CPC Management, as the general partner, and SMAIGF and Shenzhen Shengxin, as the other limited partners, with a capital contribution of RMB300.0 million in aggregate. The Partnership intends to mainly make investments in the form of equity securities and/or convertible debt securities in strategic emerging industries, future industries and other key developing industries that are supported and encouraged by the Shenzhen government. In addition to long-term investment returns to the Group, the Group's investment in the Partnership is expected to accelerate the development of the industries invested by the Partnership, and avail the Group of opportunities to establish further business cooperation with enterprises in these industries to develop and enrich the Group's IP reserves, promote the Group's mobile games and achieve synergy effects to foster the business development of the Group.

In 2019, the Group actively implemented its overseas game publishing plan to accelerate the expansion of its global business. The Group tested several games extensively, including *Age of Myth Genesis* (創世之爭), *Dynasty Warriors: Hegemony* (真 • 三國無雙：霸) and *The King of Fighters: All Stars* (全明星激鬥). The Group intends to promote these games on a large scale in 2020, and this is expected to greatly increase the scale and proportion of its revenue derived from overseas.

Through these efforts, in 2019, the Group maintained steady growth in terms of players, revenue and profit, and achieved record monthly gross billings for several of its games.

PROSPECTS

2020 will be a year of rapid and vigorous development for the Group. In 2020, it is expected that the Group will potentially publish on a large-scale basis 38 new games, including *Xuan Yuan Sword – the Origin* (軒轅劍:劍之源), *The New Legend Of The Condor Heroes: Iron Blood and Loyal Heart* (新射雕群俠傳:鐵血丹心), *Dynasty Warriors: Hegemony* (真·三國無雙:霸), *Life and Death Sniper: Zombie Frontier* (生死狙擊之殭屍前線), *Soul Land* (斗羅大陸), *A Record of a Mortal's Journey to Immortality* (凡人修仙傳) and *Incredible True Chasers* (不思議修真). Meanwhile, in terms of self-developed games, the Group intends to launch nine new games, including *Thunder Empire 2* (雷霆霸業2), *Legend of the Holy Dragon* (聖龍傳奇), *Zork Reborn* (魔域重生), *Legend of Sword and Fairy 7* (仙劍奇俠傳7) and *Legend of Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野). The Group's IP licensing business is also expected to benefit from a series of large-scale themed events of the 25th anniversary of *Legend of Sword and Fairy* (仙劍奇俠傳) in 2020, and will achieve better revenue growth in 2020. In addition, ByteDance (字節跳動), as an exclusive licensee of the Group, will officially publish two popular IP games of the Group, namely *One Piece: The Voyage* (航海王熱血航線) and *The King of Fighters: All Stars* (全明星激鬥). In terms of overseas markets, it is expected that the launch of various games, including *Age of Myth Genesis* (創世之爭), *Dynasty Warriors: Hegemony* (真·三國無雙:霸) and *The King of Fighters: All Stars* (全明星激鬥), will significantly increase the scale and proportion of the Group's revenue derived from overseas. In 2020, the Group will continue to invest in IP resources, outstanding game developers and star producers to provide strong support for the Group's IP game ecosystem.

CORPORATE SOCIAL RESPONSIBILITY

The Group attaches great importance to corporate social responsibility. Focusing on youth welfare and social welfare undertakings, the Group, together with China Population Welfare Foundation (中國人口福利基金會) and Lingshan Foundation (靈山基金會), launched the "CMGE Dream Library (中手游築夢圖書館)" programme, and has completed five "CMGE Dream Libraries" in (i) Chengping Primary School (承平小學) in Yunan County, Yunfu City, Guangdong Province; (ii) Shangquyang Primary School (上曲陽小學) in Zhengding County, Shijiazhuang City, Hebei Province; (iii) Zhonghe School (中和學校) in Meihekou City, Jilin Province; (iv) Qianjin Primary School (前進小學自由分校) in Chunwan Town, Yangchun City, Guangdong Province; and (v) Dongbai School (東柏學校) in Jishan County, Yuncheng City, Shanxi Province. In the future, two new "CMGE Dream Libraries" will be completed each year, enabling the children of these schools to read well and study well.

During the early stages of the outbreak of novel coronavirus pneumonia in Wuhan, the Group also donated a total of RMB1.4 million to Hubei Charity Federation (湖北慈善總會) and five first-tier healthcare institutions in Hubei to help the Hubei region overcome the novel coronavirus pneumonia epidemic. At the same time, driven by the Group's public welfare culture and mission to undertake greater social responsibility, the Group proactively carried out public welfare activities for children with special needs.

As a result of the Group's effort in the community and society, in 2019, the Group was awarded (i) the "Best Employer Enterprise in Guangdong Province (廣東省最佳僱主企業)" and a "Guangdong Top 500 Enterprise (廣東省企業500強)" by Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會); (ii) a "Top 300 Internet Enterprises in China (中國互聯網300強)" and a "Top 50 Most Influential Enterprises in Cultural and Creative Industry (新文創影響力企業50強)" by the Internet Weekly of Chinese Academy of Sciences (中國科學院《互聯網週刊》) and the Informatisation Research Centre of Chinese Academy of Social Sciences (中國社會科學院信息化研究中心); and (iii) a "Top 10 Game Enterprises of China Game Industry Annual Conference (中國遊戲產業年會遊戲十強)" by China Audio-video and Digital Publishing Association (中國音像與數字出版協會).

CONCLUSION

Practice makes perfect and success depends on forethought. The Group will continue to push forward its strategy of IP-based games, adhere to the vision of becoming a popular game brand for global players, uphold the mission of providing the best-to-play games for global players, impress more global players with its excellent games and further strive to practice social responsibility. We will never forget why we started, and will keep our passion alive!

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to the Shareholders and partners of the Group for your trust and support. I would also like to thank all the Group's employees and management team for their hard work and contributions in the past years. The Group will continue to work hard, achieve better results, and bring higher returns to its Shareholders.

By order of the Board
XIAO Jian
Chairman

Hong Kong, 26 March 2020

OVERVIEW AND OUTLOOK

Review of 2019

Building on the Group's consistent IP strategies, the Group achieved rapid development in 2019. According to Analysys (易觀智庫), the Group had the second largest IP reserve amongst all Chinese mobile game publishers after Tencent Game as at 31 December 2019, and the Group launched the largest number of IP-based mobile games in 2019. As at 31 December 2019, the Group had a vast IP reserve comprising 31 licensed IPs and 68 proprietary IPs. As a result of the acquisition of a 51% equity interest in Beijing Softstar, a former subsidiary of Taiwan Softstar, the Group possesses five series of popular IPs, namely *Legend of Sword and Fairy* (仙劍奇俠傳), *Xuan Yuan Sword* (軒轅劍), *Monopoly* (大富翁), *Stardom* (明星志願) and *Empire of Angels* (天使帝國), and had gained access to popular IPs owned by Taiwan Softstar.

The table below sets forth the Group's revenue and gross billings derived from its IP-based games and non-IP based games for the years indicated:

	For the year ended 31 December			
	2019		2018	
	Revenue RMB'000	Gross billings RMB'000	Revenue RMB'000	Gross billings RMB'000
IP-based games				
• licensed and proprietary IP held by the Group	1,561,002	1,995,479	490,215	1,005,107
• IP held by game developers	54,219	115,012	141,092	234,184
Non-IP based games	1,421,080	1,654,613	964,897	1,153,237
Total	3,036,301	3,765,104	1,596,204	2,392,528

Leveraging on the Group's established advantage in its IP reserves and driven by its IP strategies, during the year ended 31 December 2019, revenue generated from the Group's IP-based games amounted to RMB1,615.2 million, representing an increase of approximately 155.9% as compared to the previous year.

Apart from proprietary IPs held by the Group, the Group also licensed from third parties a large number of selected IPs, many of which are well-known cultural products and art works that have an extensive and engaging fan base, including *One Piece* (航海王), *Dragon Ball Z* (龍珠Z), *Naruto* (火影忍者), *The World of Legend* (傳奇世界), *SNK All Stars Fight* (SNK全明星大亂鬥), *Reborn!* (家庭教師), *Soul Land* (斗羅大陸) and *Fighter of Destiny* (擇天記). Building on the Group's popular IPs, the Group expects to launch in 2020 various mobile application games, H5 games and mini programme games, including *One Piece – The Voyage* (航海王熱血航線), *The King of Fighters: All Stars* (全明星激鬥), *Legend of Sword and Fairy – the Magnificence* (仙劍奇俠傳:九野), *Hua Jiang Hu: Bei Mo Ting* (畫江湖之杯莫停), *Xuan Yuan Sword – the Origin* (軒轅劍:劍之源), *Dynasty Warriors: Hegemony* (真·三國無雙:霸) and *Legend of Sword and Fairy 7* (仙劍奇俠傳7).

The Group's business is flourishing and there was a significant increase in the number of registered users in 2019. For the period between 1 January 2016 and 31 December 2019, the Group launched 107 games, among which, 73 games are still active as at the date of this annual report. The Group believes its business flourished in 2019 after assessing four key performance indicators, namely (i) average MAUs, (ii) average MPUs, (iii) ARPPU, and (iv) total new registered users. These indicators are largely affected by the number of games in operation in the relevant period and their popularity.

The following table sets forth the key performance indicators of the Group for the years indicated:

	For the year ended 31 December		Year-on-Year Changes
	2019	2018	(%)
Average MAUs	15,930,745	11,058,128	44.1
Average MPUs	1,200,298	774,532	55.0
ARPPU (RMB)	210.8	171.7	22.8
Total new registered users	85,712,733	66,849,648	28.2

The Group had 310 million registered users in total between 1 January 2016 and 31 December 2019, among which, 85.7 million were newly registered users of the Group's games in 2019, representing an increase of approximately 28.3% from 66.8 million newly registered users of the Group's games in 2018.

The Group is able to obtain online game pre-approvals for its games to support its pipeline. It is important for game publishers to obtain pre-approvals from government departments responsible for publication administration and the National Press and Publication Administration (國家新聞出版署) prior to publishing their domestically developed games, failing which the game publishers may be shut down or subjected to fines and other liabilities, and the relevant online materials being deleted. The assessment and pre-approval of domestically developed online games was suspended from April to December 2018. After the lifting of this suspension in December 2018, the Group obtained pre-approvals for 23 of its games in 2019, significantly more than the pre-approvals obtained by other market players in China. In the first quarter of 2020, the Group has further obtained pre-approvals for five of its games. The number of pre-approvals the Group has obtained has secured a stable pipeline for the Group's business in 2020.

The Group has a diversified, commercially successful and extensive mobile game portfolio. In 2019, the Group newly launched 33 games of a wide variety of genres. As at 31 December 2019, 80 games were available for download on application stores and publishing platforms, 11 of which had lifecycles of over three years. Among the newly launched games in 2019, (i) 24 were mid-core to hardcore games, including *Dragon Ball – Awakening* (龍珠覺醒), a collectible card game (CCG) based on a licensed IP of the eponymous Japanese manga, which was ranked first in the Top Free Games List of Apple's App Store on the first day of its launch, and became a recommended game of the week on Apple's App Store in the first week of its launch; (ii) seven were H5 games and mini programme games, including *The National Gunlord – The Frontier* (全民槍神：邊境王者), a game cooperated with Tencent; (iii) one was a PC web game, *War Song – the Creation* (熱血戰歌之創世), which was a popular game in the "Legend" web game category in 2019, and recorded peak gross billing in a single month of over RMB56 million, and over 2 million average MAUs; and (iv) one was a single-player PC game, *Monopoly 10* (大富翁10), which was developed by Beijing Softstar and published by a third party partner of the Group on the STEAM platform on 24 October 2019, and was the best domestically developed game in terms of sales volume on the STEAM platform in October and November 2019.

Building on the Group's extensive game portfolio and the excellence of market reactions, the Group's revenue increased by approximately 90.2% year-on-year to RMB3,036.3 million for the year ended 31 December 2019. It is expected that 38 new games, including the Group's self-developed games, are potentially launched by the Group in 2020. The Group's successful and extensive game portfolio ensures the Group's overall success is not dependent on any single game.

The Group has a strong in-house game development capability. In 2019, the Group launched four self-developed games, three of which were developed by Wenmai Hudong, a subsidiary focusing on the development of "Legend" themed games and MMORPGs, including *War Song – the Creation* (熱血戰歌之創世), and one of which was developed by Beijing Softstar, a subsidiary which developed *Monopoly 10* (大富翁10), a successful single-player PC game. Both Wenmai Hudong and Beijing Softstar have successfully developed and launched IP-based games, seven of these self-developed games were available for download or play as at 31 December 2019, including *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), which recorded peak gross billing in a single month of over RMB200 million and nearly 1.3 million average MAUs. The Group will continue to strengthen its in-house game development capability, and it is expected that nine self-developed new games are potentially launched in 2020.

The Group has one of the largest publishing networks for mobile games in China, and is able to publish on major game platforms across China. Apart from major domestic and international application stores, third-party open platforms, and application stores operated by mobile phone manufacturers, the Group also published its games through social network platforms. Through these social network platforms, the Group is able to reach a wider and more diverse user base, which allows the Group to further expand its distribution coverage to promote its games more effectively. For example, *The National Gunlord - The Frontier* (全民槍神：邊境王者), the first 3D real-time first person shooting (FPS) games competition mini programme game in the world, was launched on the WeChat mini programme platform in March 2019 and on the QQ mini programme platform in May 2019. The Group has also entered into exclusive licensing agreements with ByteDance (字節跳動) for two of its games, namely *The King of Fighters: All Stars* (全明星激鬥) and *One Piece: The Voyage* (航海王熱血航線), and has entered into a substantive negotiation phase with social network platforms for two other games. Through these collaborations with major game platforms, the Group is able to promote its games to a large and diverse user base.

The Group has strategically invested in IPs and developers to provide strong support for the Group's IP game ecosystem. The Group formed the Partnership with CPC Management, SMAIGF and Shenzhen Shengxin to mainly make investments in the form of equity securities and/or convertible debt securities in strategic emerging industries, future industries and other key developing industries that are supported and encouraged by the Shenzhen government. The Partnership has enabled the Group to gain access to opportunities of establishing further business cooperation with enterprises in these industries to develop and enrich the Group's IP reserves, promote the Group's mobile games, achieve synergy effects and to foster the business development of the Group.

Also, as at the date of this annual report, the Group held 25.7% limited partnership interests in CPC Fund, which investment portfolio primarily focuses on the mobile internet and technology industries in the Greater China region, in particular the culture and entertainment industry, such as internet literature, dramas and movies, motion pictures, manga and animations, amongst others. The Group invested in CPC Fund with a view to tapping into the fast developing mobile internet industry outside the Group's principal business of game publishing and receiving investment returns. Investing through CPC Fund also allows the Group to establish relationships in its portfolio companies, including IP-incubating platforms and vertical platforms.

In addition, as at 31 December 2019, the Group had directly invested in 14 game developers. As part of such portfolio investments, the Group had also invested in three game developing companies by way of convertible loans in the ordinary course of its business to maintain relationships with a potential pool of game developers while having the flexibility to become their shareholders. According to the terms and conditions of these convertible loans, the Group is entitled to convert the convertible loans into equity capital of the relevant game developing companies at the Group's own discretion before the maturity of the relevant convertible loans. As at the date of this annual report, the Group is in substantive discussion with Shenzhen Sparks Interactive Entertainment Co., Ltd. (深圳市火花幻境互動娛樂有限公司), the game developer of a popular game of the Group, *The National Gunlord – The Frontier* (全民槍神:邊境王者), on the conversion of a convertible loan extended to them into equity capital.

Further, in December 2019, the Group, together with around 50 market players in China, including Shiji Huatong (世紀華通) (SZSE:002602) and 37 Interactive Entertainment (37互娛) (SZSE:002555), formed a National Legend Industry Alliance (國民傳奇產業聯盟), and established a National Legend Industry Park (國民傳奇產業園) in Yichun, Jiangxi Province to focus on development of a popular IP, "Legend". The Group's chairman, Mr. Xiao Jian, is the vice chairman of the first council of the industry alliance. It is expected that the Group will continue to benefit from its leadership role and involvement in the development and exploitation of the popular "Legend" IP.

The Group received various awards and recognitions for the quality and popularity of its games and services. The Group received the following awards and recognitions during the year:

Award/Recognition	Year of Award	Awarding Institution/Authority
"Golden Diamond List" as Most Influential Enterprise of 2019 (金鑽榜2019最具影響力企業)	2020	Association of Game Industry of Guangdong (廣東省遊戲產業協會)
"Golden Finger Award" as Outstanding Enterprise in the Chinese Game Industry of 2019 (金手指獎中國遊戲行業2019年度優秀企業)	2019	China Culture & Entertainment Industry Association (中國文化娛樂行業協會)
"Golden Plume Award" as Most Influential Mobile Game Publisher (金翎獎最具影響力移動遊戲發行商)	2019	Hanwei Xinheng Exhibition Co., Ltd. (漢威信恒展覽有限公司)
China's Top Ten Game Operators (中國十大遊戲運營商)	2019	China Audio-video and Digital Publishing Association (中國音像與數字出版協會)
Top 100 Chinese Internet Companies in 2019 (2019年中國互聯網企業100強)	2019	Internet Society of China (中國互聯網協會), Ministry of Industry and Information Technology Cyber Security Industry Development Centre (工業和信息化部網絡安全產業發展中心)
Guangdong Top 500 Enterprise （廣東省企業500強）	2019	Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會)
Top 100 Innovative Enterprises in Guangdong Province (廣東省創新企業100強)	2019	Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會)
Top 100 Service Providers in Guangdong Province (廣東省服務業100強)	2019	Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會)
Best Employer Enterprise in Guangdong Province (廣東省最佳僱主企業)	2019	Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會)
Rank 67 among the Top 300 Internet Enterprises in China (中國互聯網300強第67位)	2019	Internet Weekly of Chinese Academy of Sciences (中國科學院《互聯網週刊》) and the Informatisation Research Centre of Chinese Academy of Social Sciences (中國社會科學院信息化研究中心)
Top 50 Most Influential Enterprises in Cultural and Creative Industry (新文創影響力企業50強)	2019	Internet Weekly of Chinese Academy of Sciences (中國科學院《互聯網週刊》) and the Informatisation Research Centre of Chinese Academy of Social Sciences (中國社會科學院信息化研究中心)

Award/Recognition	Year of Award	Awarding Institution/Authority
Top 10 China Super Promising IP Contest in 2019 - Legend of Sword and Fairy (Derivatives & Marketing, Film and Television) (2019年中國超級潛力IP評選Top10仙劍奇俠傳(衍生品&營銷方向、影視化方向))	2019	Securities Times China (證券時報) and Mango Excellent Media Co., Ltd. (芒果超媒股份有限公司)
Top 10 China Super Promising IP Contest in 2019 - Monopoly (Derivatives & Marketing) (2019年中國超級潛力IP評選Top10大富翁(衍生品&營銷方向))	2019	Securities Times China (證券時報) and Mango Excellent Media Co., Ltd. (芒果超媒股份有限公司)
Top 10 China Super Promising IP Contest in 2019 - Xuan Yuan Sword (Reality Entertainment & Performing Arts) (2019年中國超級潛力IP評選Top10軒轅劍(實景娛樂&演藝方向))	2019	Securities Times China (證券時報) and Mango Excellent Media Co., Ltd. (芒果超媒股份有限公司)
5th Blackstone Most Talked about Game Company Award (第五屆黑石獎硬核最受關注遊戲公司)	2019	Mobile Hardcore Alliance (硬核聯盟)
Most Watched Company of the Year (遊戲年度最受關注企業)	2019	Ocean Engine (巨量引擎)
Industry Intensive Advertising Award (行業精耕廣告主獎)	2019	Tencent Advertising (騰訊廣告)

Outlook for 2020

The Group will, driven by its IP strategies, continue to explore valuable IP resources which have a significant fan base, market acceptance and commercial value on a global basis with a focus on IPs with Chinese cultural characteristics and IPs with extensive global influence so as to help game developers attract and retain players more efficiently and effectively. At the same time, the Group will continue to provide high quality IP-based games and continue to expand its cross-border cooperations in IP, so as to leverage the competitive advantages represented by its IP reserves, in-house game development capability and distribution networks. The Group will also continue to seek merger and acquisition opportunities that can generate synergies to accelerate business growth and breakthroughs. At the same time, the Group will continue to expand its overseas gaming business. A number of games are planned to be launched overseas in 2020, including *Age of Myth Genesis* (創世之爭), *Dynasty Warriors: Hegemony* (真·三國無雙:霸) and *The King of Fighters: All Stars* (全明星激鬥). It is expected that the Group will record a significant increase in the scale and proportion of its revenue derived from overseas.

According to the Global App Store and Google Play Revenue Rankings of Chinese Mobile Game Publishers in January 2020 (2020年1月中國手遊發行商全球App Store和Google Play收入排行榜) published by Sensor Tower in January 2020, the top 30 mobile game publishers contributed more than US$1.56 billion in revenue in aggregate, representing approximately 28.2% of the total mobile game revenue globally. On 14 December 2019, the Beijing Municipal Propaganda Department (北京市委宣傳部) promulgated Several Opinions on Promoting the Healthy Development of Beijing Game Industry (關於推動北京遊戲產業健康發展的若干意見), which mentioned several measures to promote the healthy development of the game industry, and indicated a positive signal from the Chinese government to support the continual development of the gaming industry. At the same time, with the advent of the 5G era, future intelligent technologies such as human-computer interaction, interactive communication and immersive experiences are likely to be innovatively applied in the game field. The Group will pay close attention to the development opportunities represented by the cloud game industry under 5G applications, and improve its technology level for IP development. These technology revolutions are expected to lead the industry into a new period of growth. Coupled with a large number of popular IPs, 5G cloud gaming technology and supporting policies, the Group believes it will continue to achieve successful business performance in the future.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The following table sets forth the comparative figures for the years ended 31 December 2018 and 2019:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Revenue	3,036,301	1,596,204
Cost of sales	(1,953,103)	(1,063,734)
Gross profit	1,083,198	532,470
Other income and gains	95,404	123,674
Selling and distribution expenses	(230,321)	(148,054)
Administrative expenses	(577,451)	(147,672)
Other expenses	(20,551)	(7,948)
Finance costs	(15,072)	(10,053)
Share of losses of a joint venture	(2,116)	(4,257)
Share of profits of associates	10,532	17,887
Profit before tax	343,623	356,047
Income tax expense	(100,410)	(40,074)
Profit for the year	243,213	315,973
Attributable to owners of the parent	248,348	311,045
Attributable to non-controlling interests	(5,135)	4,928
Adjusted net profit (1)	611,007	335,465

Note:

(1) "Adjusted net profit" is not defined under the HKFRS. It is defined by the Group as net profit attributable to owners of the parent excluding (i) equity-settled share-based expense; and (ii) Listing expenses. The adjusted net profit more closely reflects the Group's operating results, after excluding the above-mentioned non-operating items.

Adjusted net profit

The table below sets forth a quantitative reconciliation of the Group's adjusted net profit for the years indicated:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Profit for the year attributable to owners of the parent	248,348	311,045
Add:		
(i) Equity-settled share-based expense	328,088	–
(ii) Listing expenses	34,571	24,420
Adjusted net profit	611,007	335,465

The Group's adjusted net profit increased by approximately 82.1% from RMB335.5 million for the year ended 31 December 2018 to RMB611.0 million for the year ended 31 December 2019. As the adjusted net profit excluded non-operating items that may impact the Group's net profit for the year, i.e. equity-settled share-based expense and Listing expenses, the increase in the Group's operating results for the year ended 31 December 2019 more closely reflected the improvement in the Group's operating results in 2019 due to acquisitions of several popular IPs, further diversification the Group's game portfolio and the strong performance of the Group's games in 2019.

Revenue

The Group derived its revenue from (i) the provision of game publishing services in relation to games developed by third parties, (ii) the licensing and publication of its in-house developed games, and (iii) the licensing of its proprietary IP to third parties. The table below sets forth the Group's revenue by category for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Game publishing	2,553,189	84.1	1,400,454	87.7
Game development	421,254	13.9	177,946	11.1
IP licensing	61,858	2.0	17,804	1.2
Total	3,036,301	100.0	1,596,204	100.0

The Group's revenue increased by approximately 90.2% from RMB1,596.2 million for the year ended 31 December 2018 to RMB3,036.3 million for the year ended 31 December 2019. This increase was primarily attributable to:

(i) an increase in the Group's game publishing revenue by approximately 82.3% from RMB1,400.5 million for the year ended 31 December 2018 to RMB2,553.2 million for the year ended 31 December 2019, primarily as a result of the strong performance in 2019 of the Group's games, particularly *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), *Martyn Palace* (烈焰皇城), *Dragon Ball – Awakening* (龍珠覺醒), *One Piece – the Road of the Strong* (航海王強者之路), *The Story of the Flying Mortal H5* (凡人飛仙傳H5) and *Dragon Hunter H5* (神龍獵手H5);

(ii) an increase in the Group's game development revenue by approximately 136.8% from RMB177.9 million for the year ended 31 December 2018 to RMB421.3 million for the year ended 31 December 2019, primarily as a result of (a) the consolidation of the financial results of Wenmai Hudong and Beijing Softstar starting from May 2018 and August 2018, respectively, (b) the continuous growth in performance of the Group's self-developed game, *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), in 2019, and (c) the strong performance of the Group's newly launched self-developed game, *War Song – the Creation* (熱血戰歌之創世) in 2019; and

(iii) an increase in the Group's IP licensing revenue by approximately 247.8% from RMB17.8 million for the year ended 31 December 2018 to RMB61.9 million for the year ended 31 December 2019, primarily as a result of the licensing of several proprietary IPs to third parties in 2019, including *Legend of Sword and Fairy* (仙劍奇俠傳) and *Monopoly* (大富翁).

Cost of sales

The Group's cost of sales consists primarily of (i) revenue sharing with publishing channels, (ii) amortisation of royalties from games and IPs held by third-party game developers and the Group, (iii) revenue sharing with IP owners, and (iv) game development costs. The table below sets forth the Group's cost of sales by category, and its contribution to the total revenue of the Group as a percentage, for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	% to Revenue	RMB'000	% to Revenue
Revenue sharing with publishing channels	1,841,842	60.7	985,714	61.8
Amortisation of game royalties	15,327	0.5	13,495	0.8
Amortisation of IP royalties	12,714	0.4	4,660	0.3
Revenue sharing with IP owners	21,885	0.7	28,206	1.8
Game development costs	27,120	0.9	13,328	0.8
Others (1)	34,215	1.1	18,331	1.1
Total	1,953,103	64.3	1,063,734	66.6

Note:

(1) Other costs of sales include, among others, software copyright amortisation, taxation and sundry expenses.

The Group's cost of sales increased by approximately 83.6% from RMB1,063.7 million for the year ended 31 December 2018 to RMB1,953.1 million for the year ended 31 December 2019. This increase was primarily attributable to (i) an increase in the Group's revenue shared with publishing channels, which was in line with the Group's overall increase in revenue; and (ii) the amortisation of intangible assets resulting from the Group's acquisition of Wenmai Hudong in May 2018 and Beijing Softstar in August 2018.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by approximately 103.4% from RMB532.5 million for the year ended 31 December 2018 to RMB1,083.2 million for the year ended 31 December 2019. The Group's gross profit margin increased from 33.4% for the year ended 31 December 2018 to 35.7% for the year ended 31 December 2019.

Other income and gains

The Group's other income and gains consist primarily of (i) bank interest income, (ii) government grants, (iii) gains on disposal of financial assets at fair value through profit or loss, (iv) dividend income from financial assets at fair value through profit or loss, (v) fair value gains on financial assets at fair value through profit or loss, (vi) gain on deemed disposal of an investment in an associate, (vii) fair value adjustment of contingent consideration, (viii) foreign exchange gains, and (ix) gain on disposal of other intangible assets. The table below sets forth the Group's other income and gains by category for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Bank interest income	6,001	6.3	1,228	1.0
Government grants	12,428	13.0	4,241	3.4
Gains on disposal of financial assets at fair value through profit or loss	–	–	2,308	1.9
Dividend income from financial assets at fair value through profit or loss	12,588	13.2	–	–
Fair value gains on financial assets at fair value through profit or loss	12,772	13.4	86,055	69.6
Gain on deemed disposal of an investment in an associate	38,443	40.3	–	–
Fair value adjustment of contingent consideration	–	–	17,498	14.1
Foreign exchange gains	–	–	6,739	5.5
Gain on disposal of items of other intangible assets	3,062	3.2	–	–
Others	10,110	10.6	5,605	4.5
Total	95,404	100.0	123,674	100.0

The Group's other income and gains decreased by approximately 22.9% from RMB123.7 million for the year ended 31 December 2018 to RMB95.4 million for the year ended 31 December 2019. This decrease was primarily attributable to a decrease in fair value gains on financial assets at fair value through profit or loss, which was partially offset by an increase in dividend income from financial assets at fair value through profit or loss as a result of the receipt of dividends distributed by CPC Fund and Fontaine Capital Fund, L.P.

Selling and distribution expenses

The Group's selling and distribution expenses consist primarily of (i) marketing expenses, (ii) salaries and welfare, and (iii) office costs and utilities. The table below sets forth the Group's selling and distribution expenses by category, and its contribution to the total revenue of the Group as a percentage, for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	% to Revenue	RMB'000	% to Revenue
Marketing expenses	183,414	6.0	109,988	6.9
Salaries and welfare	43,513	1.4	35,462	2.2
Office costs and utilities	2,968	0.1	1,825	0.1
Others	426	0.1	779	0.1
Total	230,321	7.6	148,054	9.3

The Group's selling and distribution expenses increased by approximately 55.5% from RMB148.1 million for the year ended 31 December 2018 to RMB230.3 million for the year ended 31 December 2019. This increase was primarily attributable to the incurring of more marketing expenses in promoting and advertising the Group's highest revenue-generating game in 2019, *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), on various popular media and social networks.

Administrative expenses

The Group's administrative expenses consist primarily of (i) salaries and welfare, (ii) office costs and utilities, (iii) research and development expenses, and (iv) Listing expenses. The table below sets forth the Group's administrative expenses by category, and its contribution to the total revenue of the Group as a percentage, for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	% to Revenue	RMB'000	% to Revenue
Salaries and welfare	343,407	11.3	32,158	2.0
Office costs and utilities	35,944	1.2	29,117	1.8
Research and development expenses	160,829	5.3	59,719	3.7
Listing expenses	34,571	1.1	24,420	1.5
Others	2,700	0.1	2,258	0.3
Total	577,451	19.0	147,672	9.3

The Group's administrative expenses increased by approximately 291.0% from RMB147.7 million for the year ended 31 December 2018 to RMB577.5 million for the year ended 31 December 2019. This increase was primarily attributable to (i) an increase in salaries and welfare expenses allocated to management and administrative departments in 2019, including the accrual of equity-settled share-based expense to certain selected employees of the Group of RMB304.4 million, in recognition of their contribution to the Group's business in past years and the achievement of the successful Listing in October 2019, and (ii) an increase in the Group's research and development expenses due to its acquisition of Wenmai Hudong in May 2018, the consolidation of the financial statements of Beijing Softstar after it became the Group's subsidiary in August 2018, and the occurrence of equity-settled share-based expense of RMB14.7 million allocated to research and development departments in 2019.

Other expenses

The Group's other expenses consist primarily of asset impairment losses. The Group's other expenses increased by approximately 160.8% from RMB7.9 million for the year ended 31 December 2018 to RMB20.6 million for the year ended 31 December 2019. This increase was primarily attributable to the record of an impairment loss of trade receivables under the relevant management policies of the Group adopted in accordance with HKFRS 9. For further details, see note 20 to the consolidated financial statements in this annual report.

Finance costs

The Group's finance costs mainly consist of interest expenses. The Group's finance costs increased by approximately 49.5% from RMB10.1 million for the year ended 31 December 2018 to RMB15.1 million for the year ended 31 December 2019. This increase was the result of an increase in the Group's bank borrowings.

Share of losses of a joint venture

As at 31 December 2019, the Group held a 60% equity interest in Shenzhen Boliang Technology Co., Ltd. (深圳博良科技有限公司), which is considered as a joint venture of the Group under applicable accounting policies.

The Group's share of losses of a joint venture decreased by approximately 51.2% from RMB4.3 million for the year ended 31 December 2018 to RMB2.1 million for the year ended 31 December 2019. This decrease was primarily attributable to a decrease in the loss recorded by Shenzhen Boliang Technology Co., Ltd. during 2019.

Share of profits of associates

As at 31 December 2019, the Group held minority equity interests in certain associated companies. The Group's share of profits of associates decreased by approximately 41.3% from RMB17.9 million for the year ended 31 December 2018 to RMB10.5 million for the year ended 31 December 2019. This decrease was primarily attributable to a loss recorded by one of the Group's associates, Shanghai Langkun Digital Technology Co., Ltd. (上海朗鵾數碼科技有限公司) in 2019.

Profit before tax

As a result of the foregoing, the Group's profit before tax decreased by approximately 3.5% from RMB356.0 million for the year ended 31 December 2018 to RMB343.6 million for the year ended 31 December 2019.

Income tax expense

The Group's income tax expense increased by approximately 150.4% from RMB40.1 million for the year ended 31 December 2018 to RMB100.4 million for the year ended 31 December 2019. This increase was primarily attributable to a significant increase in the Group's adjusted net profit in 2019.

Profit for the year

As a result of the foregoing, the Group's profit for the year decreased by approximately 23.0% from RMB316.0 million for the year ended 31 December 2018 to RMB243.2 million for the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2019, the Group funded its cash requirements principally from cash generated from its operating activities and financing activities. The Group had cash and cash equivalents of RMB144.4 million and RMB771.1 million as at 31 December 2018 and 2019, respectively. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash which are not restricted as to use.

The Group generally deposits its excess cash in its interest-bearing bank accounts and current accounts. The Group believes that its liquidity requirements will be satisfied by using a combination of (i) cash generated from its operating activities, (ii) bank loans, (iii) other funds raised from the capital markets from time to time, and (iv) the net proceeds received from the Listing. The Group currently does not have any plans for material additional external financing.

Financing activities

On 31 October 2019, the Company issued 461,000,000 Shares at an offer price of HK$2.83 per Share on the Stock Exchange by a global offering. On 4 November 2019, the Company further issued 69,150,000 Shares pursuant to the full exercise of the over-allotment option at an offer price of HK$2.83 per Share. Upon completion of the global offering, the Company raised net proceeds of approximately HK$1,347.1 million.

Cash flow

The table below sets forth a summary of the Group's cash flows for the years indicated:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Net cash flows from operating activities	310,398	59,631
Net cash flows used in investing activities	(1,318,944)	(428,363)
Net cash flows from financing activities	1,634,595	264,888
Net increase/(decrease) in cash and cash equivalents	626,049	(103,844)
Cash and cash equivalents at beginning of year	144,445	245,762
Effect of foreign exchange rate changes, net	596	2,527
Cash and cash equivalents at end of the year	771,090	144,445

Net cash flows from operating activities

For the year ended 31 December 2019, the Group recorded net cash from its operating activities of RMB310.4 million, which was primarily attributable to the Group's profit before taxation of RMB343.6 million, primarily adjusted by (i) equity-settled share-based expense of RMB328.1 million, (ii) amortisation of other intangible assets of RMB51.5 million, (iii) gain on deemed disposal of an investment in an associate of RMB38.4 million, (iv) fair value gains on financial assets at fair value through profit or loss of RMB12.8 million, and (v) depreciation of right-of-use assets of RMB18.2 million. Movements in working capital contributed a net cash outflow of RMB395.4 million, consisting of (a) an increase in trade receivables of RMB332.1 million, (b) an increase in prepayments, other receivables and other assets of RMB133.7 million, (c) an increase in amounts due from related parties of RMB9.5 million, (d) an increase in trade payables of RMB58.5 million, (e) an increase in other payables and accruals of RMB94.8 million, (f) a decrease in amounts due to related parties of RMB50.5 million, and (g) income tax paid of RMB22.9 million.

Net cash flows used in investing activities

For the year ended 31 December 2019, the Group recorded net cash used in investing activities of RMB1,318.9 million, which was primarily attributable to (i) purchases of financial assets at fair value through profit or loss of RMB183.1 million, (ii) additions to other intangible assets of RMB241.3 million, (iii) increase in pledged time deposits of RMB406.3 million, (iv) acquisition of subsidiaries, namely Wenmai Hudong and Beijing Softstar, of RMB221.0 million, (v) the deposit of RMB209.3 million to a financial institution for assets management purposes, and (vi) payments for acquisition of an angel investments fund of RMB163.0 million.

Net cash flows from financing activities

For the year ended 31 December 2019, the Group recorded net cash flows from financing activities of RMB1,634.6 million, which was primarily attributable to (i) proceeds from issue of Shares of RMB1,350.5 million, and (ii) new bank loans obtained by the Group of RMB490.6 million, partially offset by, among others, (a) share issue expenses of RMB78.0 million, and (ii) repayment of bank loans of RMB100.0 million.

Indebtedness

During the year ended 31 December 2019, the Group obtained bank loans of RMB490.6 million and repaid bank loans of RMB100.0 million.

As at 31 December 2019, the Group had interest-bearing bank borrowings of RMB442.0 million, including (i) a bank loan amounting to RMB95.2 million, secured by the pledge of the Group's time deposits in the sum of RMB100.0 million, and (ii) a bank loan amounting to RMB9.0 million, secured by a corporate guarantee provided by Shenzhen Small & Medium Enterprises Credit Financing Guarantee Group Co., Ltd. (深圳市中小企業融資擔保有限公司). The effective interest rates on the Group's secured bank loans ranged from 4.79% to 6.26%, and the Group's unsecured bank loans from 4.95% to 7.00%.

As at 31 December 2019, the lease liabilities of the Group were RMB33.7 million.

Contingent Liabilities

As at 31 December 2019, save for the two legal proceedings as disclosed in the section headed "Directors' Report – Legal proceedings and compliance" in this annual report, the Group did not have any contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of the Group. For details, see note 33 to the consolidated financial statements in this annual report.

Pledges of Assets

Details of pledges of assets are set out in notes 25 and 34 to the consolidated financial statements in this annual report.

Off-balance sheet commitments and arrangements

As at 31 December 2019, the Group did not enter into any off-balance sheet transactions.

KEY FINANCIAL METRICS

The table below sets forth the Group's key financial metrics for the years indicated:

	For the year ended/ as at 31 December	
	2019	2018
Current ratio (times) [(1)]	2.0	1.3
Gearing ratio [(2)]	11.9%	2.8%
Gross profit margin	35.7%	33.4%

Notes:

(1) Current ratio is the Group's current assets divided by its current liabilities as at the end of each financial year.

(2) Gearing ratio is total debt divided by total equity as at the end of each financial year. Total debt equals to the Group's total interest-bearing bank borrowings.

CAPITAL EXPENDITURES

The Group's historical capital expenditures primarily included royalties paid to game developers and IP owners. The Group funded its capital expenditure requirements during the year ended 31 December 2019 mainly with its internal resources.

The Group's capital commitments as at 31 December 2018 and 2019 amounted to RMB10.1 million and RMB41.3 million, respectively. The Group's capital commitments as at 31 December 2019 was for the purchase of IP and game licenses.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS OR DISPOSAL

During the period between the Listing Date and 31 December 2019, and up to the date of this annual report, the Group did not make any significant investment, or perform any material acquisition or disposal of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group will continue to focus on its existing business and will apply the net proceeds from the Listing as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus. No concrete plan for future investments is in place for the Group as at the date of this annual report.

IMPORTANT EVENTS AFFECTING THE GROUP SINCE 31 DECEMBER 2019

A new strain of coronavirus, COVID-19, was identified in 2020. The Group has been closely monitoring the impact of COVID-19. Meanwhile, no Group's employee has been diagnosed with COVID-19, and the COVID-19 outbreak has not currently had any significant impact on the Group's operations. The Group will continue to review its contingency measures as the COVID-19 outbreak situation evolves.

Save as disclosed above, no other important events affecting the Group has taken place since 31 December 2019 and up to the date of this annual report.

FOREIGN CURRENCY RISK

The Group has transactional currency exposures, which arise from sales or purchases by operating units in currencies other than the units' functional currencies.

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

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
RMB/HKD		
Strengthened 5%	12,500	25,078
Weakened 5%	(12,500)	(25,078)
RMB/USD		
Strengthened 5%	17,386	8,869
Weakened 5%	(17,386)	(8,869)
RMB/KRW		
Strengthened 5%	(85)	357
Weakened 5%	85	(357)
RMB/TWD		
Strengthened 5%	(187)	(179)
Weakened 5%	187	179

The Group currently does not engage in hedging activities designed or intended to manage foreign exchange rate risk. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

RELATED PARTY TRANSACTIONS

The following entities were related parties that had transaction or balances with the Group during the year ended 31 December 2019:

	Name of related party	Relationship with the Group
1.	Taiwan Softstar [1]	Minority Shareholder of a subsidiary and equity invested by the Group
2.	Softstar International Inc.	Equity invested by the Group
3.	Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司)	Associate
4.	Guangzhou Leiyu Information Technology Co., Ltd. (廣州市雷娛信息科技有限責任公司)	Associate
5.	Shanghai Langkun Digital Technology Co., Ltd. (上海朗鵾數碼科技有限公司)	Associate
6.	Shenzhen Haituo Shidai Technology Co., Ltd. (深圳海拓時代科技有限公司)	Associate
7.	Shenzhen Boliang Technology Co., Ltd. (深圳博良科技有限公司)	Joint venture
8.	Mr. Fan Yingjie (樊英傑)	The key management of a subsidiary of the Company, namely Wenmai Hudong

Note:

(1) As at 31 December 2019, Taiwan Softstar held a 49% interest in Beijing Softstar, which was an insignificant subsidiary of the Company under Chapter 14A of the Listing Rules. Accordingly, Taiwan Softstar was not a connected person of the Company as at 31 December 2019.

The table below sets forth the Group's material transactions with related parties for the years indicated:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Publishing services provided to Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司)	68,591	63,476
Promotion services received from Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司)	20,287	–
Publishing services provided to Shenzhen Haituo Shidai Technology Co., Ltd. (深圳海拓時代科技有限公司)	297,477	154,271
Publishing services provided to Shanghai Langkun Digital Technology Co., Ltd. (上海朗鵾數碼科技有限公司)	4,624	49,608
Publishing services provided to Taiwan Softstar	–	2,578
Publishing services provided to Zhuhai Tianlang Interactive Technology Co., Ltd. (珠海天朗互動科技有限公司)	–	918
Development services provided to Taiwan Softstar	730	3,358
Total	391,709	274,209

Amounts due from/(to) Related Parties

Receivables and payables from/(to) the Group's related parties were unsecured, interest-free and repayable on terms similar to those offered to the major customers of the Group. The amounts due from related parties are neither past due nor impaired. The carrying amounts of the amounts due from/(to) related parties approximate their fair values and are denominated in RMB. The table below sets forth the amounts due from and due to related parties as at the dates indicated.

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Amounts due from related parties		
Taiwan Softstar [(1)]	17,002	9,717
Mr. Fan Yingjie (樊英傑) [(2)]	1,800	800
Shenzhen Boliang Technology Co., Ltd. (深圳博良科技有限公司) [(1)]	1,200	–
	20,002	10,517
Amounts due to related parties		
Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司) [(1)]	9,822	1,872
Guangzhou Leiyu Information Technology Co., Ltd. (廣州市雷娛信息科技有限責任公司) [(2)]	5,000	5,000
Shanghai Langkun Digital Technology Co., Ltd. (上海朗鵾數碼科技有限公司) [(1)]	1,195	30,067
Chengdu Jumeng Tianxia Technology Co., Ltd. (成都聚夢天下科技有限公司) [(1)]	–	7,667
Shenzhen Haituo Shidai Technology Co., Ltd. (深圳海拓時代科技有限公司) [(1)]	–	21,418
Zhuhai Tianlang Interactive Technology Co., Ltd. (珠海天朗互動科技有限公司) [(1)]	–	37
Taiwan Softstar [(2)]	4,783	4,137
Softstar International Inc. [(2)]	–	1,079
	20,800	71,277

Notes:

(1) Trade in nature.

(2) Non-trade in nature.

The related party transactions during the year ended 31 December 2019 as disclosed above did not constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Directors have confirmed that all related party transactions have been conducted on normal commercial terms, and that their terms are fair and reasonable.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Listing were approximately HK$1,347.1 million after deducting underwriting fees and expenses in connection with the Listing. Between the Listing Date and 31 December 2019, the Company applied the net proceeds as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus, and there was no material change or delay in the use of proceeds.

The table below sets forth the utilisation of the net proceeds and the remaining balance as at 31 December 2019:

No.	Purposes	Amount of the net proceeds	Amount utilised between the Listing Date and 31 December 2019	The remaining balance as at 31 December 2019
			(HK$ in millions)	
1.	Expanding and enhancing the Company's IP-based game publishing and development business	673.55 (50% of the total net proceeds)	209.65	463.90
2.	Conducting merger and acquisition activities of participants in the mobile game ecosystem	538.84 (40% of the total net proceeds)	200.64	338.20
3.	Working capital and general corporate purposes	134.71 (10% of the total net proceeds)	15.35	119.36
	Total	1,347.10	425.64	921.46

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

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Group is a leading IP-based game publisher and developer, focusing primarily on IPs relating to well-known cultural products and art works such as icons or characters from popular animations, novels and motion pictures which have a significant fan base, market acceptance and commercial value. As at 31 December 2019, the Group operated 80 games, including (i) *Dragon Ball - Awakening* (龍珠覺醒), a collectible card game (CCG) based on a licensed IP of the eponymous Japanese manga, which was ranked first in the Top Free Games List of Apple's App Store on the first day of its launch, and became a recommended game of the week on Apple's App Store in the first week of its launch; (ii) *World of Legend - Thunder Empire* (傳奇世界之雷霆霸業), which recorded peak gross billing in a single month of over RMB200 million; (iii) *War Song - the Creation* (熱血戰歌之創世), a popular game in the "Legend" web game category in 2019, recorded peak gross billing in a single month of over RMB56 million and over 2 million average MAUs; and (iv) *Monopoly 10* (大富翁10), which was developed by Beijing Softstar and published by a third party partner of the Group on the STEAM platform on 24 October 2019, and was the best domestically developed game in terms of sales volume on the STEAM platform in October and November 2019.

A description of the Company's principal activities is set out in note 1 to the consolidated financial statements in this annual report.

A list of the Company's principal subsidiaries as at 31 December 2019, together with, among others, their dates and places of incorporation and particulars of their issued share capital, are set out in note 1 to the consolidated financial statements in this annual report.

BUSINESS REVIEW

The section headed "Management Discussion and Analysis" in this annual report forms part of this business review.

Strategic Cooperation with 7Road Holdings Limited

The Company entered into a strategic cooperation framework agreement with 7Road Holdings Limited (Stock Code: 0797) on 27 December 2019, pursuant to which both parties agreed to undertake strategic cooperation for a term of five years in areas such as (i) exclusive right of first refusal in connection with game publishing and operation, (ii) right of first refusal in connection with game IPs, (iii) cooperation in connection with the games based on the *World of Legend* (傳奇世界), *Wartune* (神曲) and *DDTank* (彈彈堂) IPs, (iv) cooperation in connection with overseas games publishing and operation, and (v) cooperation in connection with game cloud and cloud gaming. The strategic cooperation will allow the Company to enrich its game offerings and IP reserves and to promote its market profile in the overseas markets. For further details, please refer to the Company's announcement dated 30 December 2019.

Principal Risks and Uncertainties

As an IP-based game publisher and developer in the PRC, the Group faces various risks involved in its daily business operations as well as the industry and regulatory landscape in the PRC. These risks include (i) the Group may not be successful in licensing games and IPs from game developers and IP owners; (ii) the Group may not be successful in developing games in-house; (iii) the Group's new games may not be commercially successful and the Group may not be able to attract new players; (iv) the Group may fail to maintain and grow its player base or keep its players engaged through popular games; and (v) the laws and regulations regulating mobile games in the PRC continue to evolve and change, and the Group may be unable to obtain or maintain all applicable permits and approvals. For details, please refer to the section headed "Risk Factors" in the Prospectus.

The Group also operates its business under the Contractual Arrangements, and is therefore subject to the related risks which are summarised in the section headed "Contractual Arrangements – Risks relating to the Contractual Arrangements" in this annual report.

Major Customers and Major Suppliers

For the year ended 31 December 2019, the Group's five largest customers accounted for 27.7% (2018: 56.2%) of the Group's total revenue, and the Group's single largest customer accounted for 9.8% (2018: 24.6%) of the Group's total revenue.

For the year ended 31 December 2019, the Group's five largest suppliers accounted for 33.7% (2018: 33.3%) of the Group's total cost of sales, and the Group's single largest supplier accounted for 12.0% (2018: 10.4%) of the Group's total cost of sales.

During the year ended 31 December 2019, apart from Mr. TANG Yanwen, who is an non-executive Director and is one of the five directors of the parent company of one of the Group's top five suppliers for the year ended 31 December 2019, none of the Directors, their close associates or any Shareholders (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of the Group's top five customers and suppliers.

Environmental Protection

Due to the Group's business nature as a game publisher and developer, the Group is not subject to significant environmental risks. During the year ended 31 December 2019 and up to the date of this annual report, the Group was not subject to any fines or other penalties due to non-compliance with environmental regulations.

The Group is committed to minimising the impact on the environment from its business activities. For details of the Group's environmental protection measures, please refer to the section headed "Environmental, Social and Governance Report - Environment" in this annual report.

FINANCIAL RESULTS

The financial results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss in this annual report.

RESERVES

Details of the movements in the reserves of the Company and reserves available for distribution to Shareholders as at 31 December 2019 are set out in note 40 to the consolidated financial statements in this annual report. The distributable reserves of the Company as at 31 December 2019 were RMB1,270.9 million.

DIVIDENDS

After due consideration of Shareholders' as well as the Company's long-term interests, the Board recommended the payment of a final dividend of HK$0.0355 (equivalent to RMB0.0313 based on the average exchange rate of 2019) per Share for the year ended 31 December 2019 out of the Company's share premium account, subject to the approval of Shareholders at the Company's forthcoming annual general meeting. The final dividend, if approved by the Shareholders at the forthcoming annual general meeting, will be paid on or before Tuesday, 30 June 2020 to Shareholders whose name appear on the register of members of the Company as at the close of business on Friday, 12 June 2020. The aggregated amount of the dividends to be distributed by the Company for the year ended 31 December 2019 is proposed to be approximately HK$82.7 million, based on 2,330,150,000 Shares, being the total number of Shares as at 31 December 2019.

For the purpose of determining entitlement to a final dividend, the register of members of the Company will be closed from Monday, 8 June 2020 to Friday, 12 June 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to the payment of a final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 5 June 2020.

There is no arrangement under which a Shareholder has waived or agreed to waive any dividends (including future dividends).

DONATIONS

During the year ended 31 December 2019, the Company made a total of approximately RMB972,000 of charitable and other donations.

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.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company as at 31 December 2019 are set out in note 25 to the consolidated financial statements in this annual report.

PROPERTY AND EQUIPMENT

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

DIRECTORS

Directors during the year ended 31 December 2019 and up to the date of this annual report

Executive Directors

Mr. XIAO Jian
(Chairman and Chief Executive Officer)
Mr. SIN Hendrick
(Vice Chairman)

Non-executive Directors

Mr. MA Yuntao
Mr. TANG Yanwen

Independent Non-executive Directors

Ms. NG Yi Kum
(appointed on 20 September 2019)
Mr. TANG Liang
(appointed on 20 September 2019)
Mr. HO Orlando Yaukai
(appointed on 20 September 2019)

Biographical details of the Directors and senior management members of the Company are set out in the section headed "Biographies of Directors and Senior Management" in this annual report.

Resignation of Directors

From the Listing Date to 31 December 2019, no Directors resigned from office or refused to stand for re-election to office.

Confirmation of Independence of Independent Non-executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors, and the Company considers such Directors to be independent from the Listing Date to 31 December 2019.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save for the Contractual Arrangements and the formation of a partnership as disclosed in the section headed "Connected Transaction" in this annual report, to the best knowledge of the Directors, no Director, or any entity connected with a Director, is or was materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Company to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2019.

Rights and Interests of Directors on Competing Business

To the best knowledge of the Directors, during the year ended 31 December 2019, none of the Directors, or their respective close associates, had any interest in a business, apart from the business of the Group, which competed or is likely to compete, directly or indirectly, with the Group's business, and which would require disclosure under Rule 8.10 of the Listing Rules.

Positions of Directors in Substantial Shareholders of the Company

During the year ended 31 December 2019, to the best knowledge of the Directors, the positions (as director or employee) of the Directors in a company which had an interest in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Director	Entity which had an interest in the Shares and underlying Shares which would fall to be disclosed under the SFO	Position
Mr. Xiao	Fairview Ridge	Director
	Motion Game	Director
	Profound Power	Director
	Ambitious Profit	Director
	Zhongshouyou Brothers BVI	Director
Mr. Sin	Fairview Ridge	Director
	Motion Game	Director
	Profound Power	Director
	Ambitious Profit	Director
	Silver Joyce	Director
Mr. Ma	Hontai Zhike Cayman Limited	Director
	Yunzhuo Beijing	Executive Director and Manager
	Yunzhuo Chengdu	Executive Director and General Manager
	Orient Zhike Limited	Director

Save as disclosed above, to the best knowledge of the Directors, none of the Directors is a director or employee of a company which has an interest in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or existed for the year ended 31 December 2019.

EMPLOYEES REMUNERATION AND RELATIONS

As at 31 December 2019, the Group had 825 full-time employees (2018: 782). The success of the Group depends on its ability to attract, retain and motivate qualified personnel. As part of the Group's human resources strategy, the Group offers employees competitive salaries, performance based promotion systems and other incentives. Some of the Group's employees also received RSUs under the Pre-IPO RSU schemes. The Group provides training programmes to employees, including new hire training for new employees and continuing technical training for the Group's research and development team and game operation team to enhance their skill and knowledge.

REMUNERATION POLICY

A remuneration committee has been set up to assist the Board to develop and administer a formal and transparent procedure for setting policy on the remuneration of Directors and senior management, evaluating the performance of Directors and senior management, reviewing and approving the terms of incentive schemes (including the Pre-IPO RSU Schemes and the Post-IPO Share Option Scheme) and Directors' service contracts, and recommending to the Board the remuneration packages for all Directors and senior management. Emoluments of Directors shall be determined by the Board in accordance with the Company's remuneration policy, and with reference to Directors' experience, working performance and position as well as the market conditions.

Details of the emoluments of the Directors and five highest paid individuals for the year ended 31 December 2019 are set out in notes 8 and 9 to the consolidated financial statements in this annual report.

Mr. TANG Liang waived his own emolument of HKD30,000 for the year ended 31 December 2019.

PRE-IPO RSU SCHEMES AND POST-IPO SHARE OPTION SCHEME

Pre-IPO RSU Schemes

To recognise the contributions by the relevant RSU grantees and to retain them for the continual operation and development of the Group, on 20 September 2019, the Company approved and adopted two Pre-IPO RSU Schemes, one for four core connected persons of the Company, namely, Mr. Xiao, Mr. Sin, Ms. LAI Yau Yan Gladys and Ms. LIANG Yan, and the other for the other grantees who are not the core connected persons of the Company. The total number of Shares underlying the RSUs granted under the Pre-IPO RSU Schemes was 180,000,000 Shares, which are held by C&T Services Limited and JW Holdings Cayman Limited, as Pre-IPO RSU Schemes trustees, before vesting the relevant Shares to the grantees under the Pre-IPO RSU Schemes.

As at 31 December 2019, RSUs in respect of a total of 180,000,000 Shares were granted under the Pre-IPO RSU Schemes, 96,000,038 of which were vested between the Listing Date and 31 December 2019. Set forth below are the details of these grantings and vestings:

(i) Mr. Xiao, an executive Director, was granted RSUs in respect of 66,957,500 Shares, 40,319,167 of which were vested between the Listing Date and 31 December 2019;

(ii) Mr. Sin, an executive Director, was granted RSUs in respect of 72,360,000 Shares, 42,120,000 of which were vested between the Listing Date and 31 December 2019;

(iii) Ms. LAI Yau Yan Gladys, the company secretary of the Company and a director of some of the Company's subsidiaries, was granted RSUs in respect of 125,000 Shares, 41,667 of which were vested between the Listing Date and 31 December 2019;

(iv) Ms. LIANG Yan, a director of some of the Company's subsidiaries, was granted RSUs in respect of 3,762,500 Shares, 1,254,167 of which were vested between the Listing Date and 31 December 2019; and

(v) the other grantees, who are not the core connected persons of the Company, were granted an aggregate number of RSUs in respect of 36,795,000 Shares, 12,265,037 of which were vested between the Listing Date and 31 December 2019.

The unvested RSUs shall vest if the required performance targets as set by the Board are achieved. The grantees of the RSUs granted under the Pre-IPO RSU Schemes are not required to pay for the grant of any RSU under the Pre-IPO RSU Schemes.

As the Pre-IPO RSU Schemes do not involve the grant of options to subscribe for any new Shares of the Company, it is not required to be subject to the provisions under Chapter 17 of the Listing Rules. For details of the Pre-IPO RSU Schemes, please refer to the section headed "Statutory and General Information – E. Share Incentive Schemes – 1. Pre-IPO RSU Schemes" in Appendix IV to the Prospectus.

Post-IPO Share Option Scheme

On 20 September 2019, the Post-IPO Share Option Scheme of the Company was approved and adopted by the Shareholders. The Post-IPO Share Option Scheme is subject to Chapter 17 of the Listing Rules.

Purpose

The purpose of the Post-IPO Share Option Scheme is to incentivise and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

Participants

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Post-IPO Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of the Group or associated companies of the Company ("**Eligible Persons**").

Maximum Number of Shares in respect of which options may be granted

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme of the Company must not in aggregate exceed 10% of the total number of Shares issued as at the Listing Date, i.e. 226,100,000 (the "**Scheme Mandate Limit**"). The Scheme Mandate Limit represented approximately 9.7% of the Company's issued shares as at the date of this annual report. Options lapse in accordance with the terms of the Post-IPO Share Option Scheme and any other schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Board may, with the approval of the Shareholders in a general meeting, refresh the Scheme Mandate Limit provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes of the Company under the Scheme Mandate Limit as refreshed must not exceed 10% of the Shares issued as at the date on which the Shareholders approve the refreshment of the Scheme Mandate Limit. Options previously granted under the Post-IPO Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the Scheme Mandate Limit as "refreshed". The Board may, with the approval of the Shareholders in a general meeting, grant options to any Eligible Person specifically identified by them which would cause the Scheme Mandate Limit to be exceeded. The Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

At any time, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Post-IPO Share Option Scheme and any other schemes of the Company to Eligible Persons must not exceed 30% of the total number of Shares issued from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an independent financial adviser appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of the Company whether by way of capitalisation of profits or reserves, rights issue, consolidation or subdivision of shares, or reduction of the share capital of the Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction.

Maximum Entitlement of Each Individual

No options shall be granted to any Eligible Person under the Post-IPO Share Option Scheme and any other schemes of the Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer of such options, would exceed 1% of the Shares in issue at such date.

Any further grant of options to an Eligible Person in excess of this 1% limit shall be subject to the approval of the Shareholders in a general meeting with such Eligible Person and his or her associates abstaining from voting. The Company must send a circular to the Shareholders disclosing the identity of the Eligible Person in question, the number and terms of the options to be granted (and options previously granted to such Eligible Person) and such other information required under the Listing Rules.

The number and terms (including the exercise price) of the options to be granted to such Eligible Person must be fixed before the Shareholders' approval and the date of the Board meeting approving such further grant shall be taken as the date of grant for the purpose of determining the exercise price of the options.

Period within which an Offer of Options must be accepted

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Post-IPO Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of RMB1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

Exercise Price

Subject to any adjustment made pursuant to the Post-IPO Share Option Scheme, the exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;

(ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and

(iii) the nominal value of the Shares.

Duration of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date (i.e. expiring on 31 October 2029), after which period no further options will be granted but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any option granted prior thereto which are at that time or become thereafter capable of exercise under the Post-IPO Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. Accordingly, as at 31 December 2019, the remaining life of the Post-IPO Share Option Scheme is approximately nine years and ten months.

Time of vesting and exercise of options

Any option shall be vested on an option-holder immediately upon his or her acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an option-holder according to such vesting schedule and/or upon the fulfilment of the vesting conditions (as the case may be). Such offer of options may also include any minimum period for which any option must be held before it can be exercised. Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board at its sole discretion may, unless the Board determines otherwise at its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remains unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option.

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

Restriction on the Time of Grant of Options

A grant of options may not be made after inside information has come to the Company's knowledge until such inside information has been announced as required under the Listing Rules. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for the Company to publish an announcement of the results for any year, or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

No options granted under the Post-IPO Share Option Scheme

Between the Listing Date and 31 December 2019, no share option was granted, exercised, cancelled or lapsed since its adoption and there is no outstanding share option under the Post-IPO Share Option Scheme.

SHARE CAPITAL

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

DIRECTORS' AND CHIEF EXECUTIVES' 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 executives 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 had 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 were as follows:

(i) Interest in the Shares

Name of Directors/ Chief Executive	Nature of Interest	Number of Shares held/ interested[1]	Approximate percentage of interest in the Company[2]
Mr. Xiao	Founder of a discretionary trust, interest in a controlled corporation and other [3][4]	851,627,357(L)	36.55%
Mr. Sin	Interest in a controlled corporation and other [5][6]	817,059,663(L)	35.06%
Mr. Ma	Interest in a controlled corporation[7]	291,195,604(L)	12.50%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) The percentages are calculated on the basis of 2,330,150,000 Shares in issue as at 31 December 2019.

(3) Mr. Xiao, through Victory Aspire, a company wholly-owned by Antopex Limited, which is nominated by CMB Wing Lung (Trustee) Limited, the trustee of the Xiao Family Trust, (i) was deemed to be interested in 131,679,599 Shares held by his wholly-owned company, Zhongshouyou Brothers BVI, and (ii) was deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 64% by Zhongshouyou Brothers BVI).

(4) Mr. Xiao has been granted RSUs under the Pre-IPO RSU Schemes, entitling him to receive an aggregate of 66,957,500 Shares, among which, RSUs representing 40,319,167 Shares were, at the instruction of Mr. Xiao, vested to Zhongshouyou Brothers BVI. The remaining RSUs representing 26,638,333 Shares shall vest if the required performance targets are achieved.

(5) Mr. Sin (i) was deemed to be interested in 93,510,238 Shares held by his wholly-owned company, Silver Joyce, and (ii) was deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 36% by Silver Joyce).

(6) Mr. Sin has been granted RSUs under the Pre-IPO RSU Schemes, entitling him to receive an aggregate of 72,360,000 Shares, among which, RSUs representing 42,120,000 Shares were, at the instruction of Mr. Sin, vested to his wholly-owned company, Silver Joyce. The remaining RSUs representing 30,240,000 Shares shall vest if the required performance targets are achieved.

(7) Mr. Ma was deemed to be interested in 291,195,604 Shares held by Zhike L.P., which is a limited partnership incorporated in the Cayman Islands and is controlled by its general partner, Hontai Zhike Cayman Limited, an exempted company incorporated in the Cayman Islands. Hontai Zhike Cayman Limited is wholly-owned by Orient Zhike Limited, a limited company incorporated in the BVI, which is in turn wholly-owned by Beijing Orient L.P., a limited partnership established in the PRC. Beijing Orient L.P. is controlled by its executive general partner, Yunzhuo Beijing, which is wholly owned by Yunzhuo Chengdu, and in turn is controlled as to 79% by Mr. Ma.

(ii) Interest in associated corporations

Name of Director	Name of associated corporation	Approximate percentage shareholding
Mr. Xiao	Chengdu Zhuoxing [(1)]	9.20%
Mr. Xiao	Shenzhen Zhongshouyou [(1)]	9.20%
Mr. Xiao	Shenzhen Douyue [(1)]	9.20%

Note:

(1) Mr. Xiao, through Shaoxing Shangyu Zhongshouyou Brothers Investment Partnership (Limited Partnership) (紹興市上虞中手游兄弟投資合夥企業(有限合夥)), held all the equity interests in Zhongshouyou Brothers PRC, which indirectly held 9.20% equity interests of the PRC Operating Entities.

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executives 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the Pre-IPO RSU Schemes and the Post-IPO Share Option Scheme, and the formation of a partnership as disclosed in the section headed "Directors' Report – Connected Transactions" in this annual report, at no time between the Listing Date and 31 December 2019 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

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

As at 31 December 2019, to the best knowledge of the Directors, the following persons 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 and as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares held(1)	Approximate percentage of interest in the Company(2)
Mr. Xiao	Founder of a discretionary trust, interest in a controlled corporation and other (3)(4)	851,627,357(L)	36.55%
CMB Wing Lung (Trustee) Limited	Trustee of a trust (3)(4)	824,989,024(L)	35.40%
Antopex Limited	Nominee for another person (3)(4)	824,989,024(L)	35.40%
Victory Aspire	Interest in a controlled corporation (3)(4)	824,989,024(L)	35.40%
Zhongshouyou Brothers BVI	Beneficial owner (3)(4)	131,679,599 (L)	5.65%
	Interest in a controlled corporation (3)	693,309,425 (L)	29.75%
Mr. Sin	Interest in a controlled corporation and other (5)(6)	817,059,663(L)	35.06%
Silver Joyce	Beneficial owner (5)(6)	93,510,238 (L)	4.01%
	Interest in a controlled corporation (5)	693,309,425 (L)	29.75%
Fairview Ridge	Beneficial owner (3)(5)	693,309,425 (L)	29.75%
Motion Game	Interest in a controlled corporation (3)(5)	693,309,425 (L)	29.75%
Profound Power	Interest in a controlled corporation (3)(5)	693,309,425 (L)	29.75%
Changpei Cayman	Interest in a controlled corporation (3)(5)	693,309,425 (L)	29.75%
Ambitious Profit	Interest in a controlled corporation (3)(5)	693,309,425 (L)	29.75%
Mr. Ma	Interest in a controlled corporation (7)	291,195,604(L)	12.50%
Yunzhuo Chengdu	Interest in a controlled corporation (7)	291,195,604(L)	12.50%
Yunzhuo Beijing	Interest in a controlled corporation (7)	291,195,604(L)	12.50%
Beijing Orient L.P.	Interest in a controlled corporation (7)	291,195,604(L)	12.50%
Orient Zhike Limited	Interest in a controlled corporation (7)	291,195,604(L)	12.50%
Hontai Zhike Cayman Limited	Interest in a controlled corporation (7)	291,195,604(L)	12.50%
Zhike L.P.	Beneficial owner (7)	291,195,604(L)	12.50%
Zhongrong Trust	Interest in a controlled corporation (8)(9)	369,461,107(L)	15.86%
Beijing Zhongrong Dingxin	Interest in a controlled corporation (8)(9)	369,461,107(L)	15.86%
Dazi Dingcheng	Interest in a controlled corporation (8)(9)	369,461,107(L)	15.86%
Shanghai Pegasus	Interest in a controlled corporation (8)	293,327,517(L)	12.59%
Pegasus Technology	Interest in a controlled corporation (8)	293,327,517(L)	12.59%
Pegasus BVI	Interest in a controlled corporation (8)	293,327,517(L)	12.59%
Pegasus HK	Beneficial owner (8)	293,327,517(L)	12.59%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) The percentages are calculated on the basis of 2,330,150,000 Shares in issue as at 31 December 2019.

(3) Mr. Xiao, through Victory Aspire, a company wholly-owned by Antopex Limited, which is nominated by CMB Wing Lung (Trustee) Limited, the trustee of the Xiao Family Trust, (i) was deemed to be interested in 131,679,599 Shares held by his wholly-owned company, Zhongshouyou Brothers BVI, and (ii) was deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 64% by Zhongshouyou Brothers BVI). Ms. HUO Dongyan is the spouse of Mr. Xiao and was deemed to be interested in 851,627,357 Shares Mr. Xiao was interested in.

(4) Mr. Xiao has been granted RSUs under the Pre-IPO RSU Schemes, entitling him to receive an aggregate of 66,957,500 Shares, among which, RSUs representing 40,319,167 Shares were, at the instruction of Mr. Xiao, vested to Zhongshouyou Brothers BVI. The remaining RSUs representing 26,638,333 Shares shall vest if the required performance targets are achieved.

(5) Mr. Sin (i) was deemed to be interested in 93,510,238 Shares held by his wholly-owned company, Silver Joyce, and (ii) was deemed to be interested in 693,309,425 Shares held by Fairview Ridge through Motion Game, Profound Power, Changpei Cayman and Ambitious Profit (the general partner of Changpei Cayman owned as to 36% by Silver Joyce). Ms. SIN LO Siu Wai Sylvia is the spouse of Mr. Sin and was deemed to be interested in 817,059,663 Shares Mr. Sin was interested in.

(6) Mr. Sin has been granted RSUs under the Pre-IPO RSU Schemes, entitling him to receive an aggregate of 72,360,000 Shares, among which, RSUs representing 42,120,000 Shares were, at the instruction of Mr. Sin, vested to his wholly-owned company, Silver Joyce. The remaining RSUs representing 30,240,000 Shares shall vest if the required performance targets are achieved.

(7) Mr. Ma was deemed to be interested in 291,195,604 Shares held by Zhike L.P., which is a limited partnership incorporated in the Cayman Islands and is controlled by its general partner, Hontai Zhike Cayman Limited, an exempted company incorporated in the Cayman Islands. Hontai Zhike Cayman Limited is wholly-owned by Orient Zhike Limited, a limited company incorporated in the BVI, which is in turn wholly-owned by Beijing Orient L.P., a limited partnership established in the PRC. Beijing Orient L.P. is controlled by its executive general partner, Yunzhuo Beijing, which is wholly owned by Yunzhuo Chengdu, and in turn is controlled as to 79% by Mr. Ma. Ms. PIAO Chunhua is the spouse of Mr. Ma and was deemed to be interested in 291,195,604 Shares Mr. Ma was interested in.

(8) Pegasus Network HK Limited (響格瑟斯網絡香港有限公司) ("**Pegasus HK**"), a Hong Kong company, is wholly-owned by Pegasus Technology Limited ("**Pegasus BVI**"), a BVI company, which is in turn wholly-owned by Shanghai Pegasus Technology Development Limited (上海響歌科技發展有限公司) ("**Pegasus Technology**"), a PRC limited liability company. Pegasus Technology is owned as to 0.4% by an independent third party and 99.6% by Shanghai Pegasus Investment Centre (Limited Partnership) (上海響格瑟斯投資中心(有限合夥)) ("**Shanghai Pegasus**"), a PRC limited partnership, the general partner of which is Dazi Dingcheng Capital Investment Co., Ltd. (達孜縣鼎誠資本投資有限公司) ("**Dazi Dingcheng**"), a limited liability company established in the PRC, which is wholly-owned by Beijing Zhongrong Dingxin Investment Management Co., Ltd. (北京中融鼎新投資管理有限公司) ("**Beijing Zhongrong Dingxin**") and in turn wholly-owned by Zhongrong International Trust Co., Ltd. (中融國際信託有限公司) ("**Zhongrong Trust**").

(9) Yichong Technology HK Limited (一翀科技香港有限公司) ("**Yichong HK**"), a Hong Kong company, held 76,133,590 Shares, representing approximately 3.26% of the total issued Shares, as at 31 December 2019. Yichong HK is wholly-owned by Yichong Technology Limited, a BVI company, which is in turn wholly-owned by Shanghai Jichong Technology Development Limited (上海紀翀科技發展有限公司) ("**Jichong Shanghai**"), a PRC limited liability company. Jichong Shanghai is owned as to 0.4% by an independent third party and 99.6% by Yichong Investment, a PRC limited partnership, the general partner of which is Dazi Dingcheng, a limited liability company established in the PRC, which is wholly-owned by Beijing Zhongrong Dingxin and in turn wholly-owned by Zhongrong Trust.

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any person (who were not Directors or chief executives 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 recorded in the register referred to therein.

PARTNERSHIP STRUCTURE OF CHANGPEI CAYMAN

Changpei Cayman is an exempted limited partnership registered in the Cayman Islands, the general partner of which is Ambitious Profit, a company incorporated in the Cayman Islands and indirectly owned as to 64% by Mr. Xiao through Zhongshouyou Brothers BVI, and 36% by Mr. Sin through Silver Joyce. Mr. Xiao and Mr. Sin have confirmed that the limited partners of Changpei Cayman were Shi Jian (施劍), Wang Yao (王瑤), Zheng Tao (鄭濤), Wang Lingdi (王凌迪) and Zhao Liang (趙亮) as at 31 December 2019. Changpei Cayman held 29.75% of the total issued Shares as at 31 December 2019.

The Company, Mr. Xiao and Mr. Sin are not aware of, for the period between the Listing Date and 31 December 2019, any direct transfer of partnership interests (i.e. interests in Changpei Cayman itself) or indirect transfer of partnership interests (such as a transfer of beneficial interests in Changpei Cayman, including transfers in the shares of the corporate entities holding Changpei Cayman's partnership interests) held by the limited partners and general partner of Changpei Cayman.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2019, the Group did not purchase, sell or redeem any of the Company's listed securities.

EQUITY-LINKED AGREEMENTS

Other than the Pre-IPO RSU Schemes and the Post-IPO Share Option Scheme, during the year ended 31 December 2019, no equity-linked agreement was entered into by or subsisted in the Company, and there was no provision to enter into any agreement which will or may result in the Company issuing Shares.

CONNECTED TRANSACTIONS

Apart from the connected transaction disclosed below and the Contractual Arrangements as disclosed in the section headed "Directors' Report – Contractual Arrangements" in this annual report, the Company had no connected transactions between the Listing Date and 31 December 2019 which are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

Formation of a Partnership

On 2 December 2019, Shenzhen Zhongshouyou entered into a partnership agreement with CPC Management, SMAIGF and Shenzhen Shengxin in relation to the formation of the Partnership. The total capital contribution from all the partners of the Partnership shall be RMB300.0 million. The existing partners of the Partnership had already paid the relevant capital contributions in full as at the Latest Practicable Date. It is expected that the overall capital raising size of the Partnership shall not exceed RMB500.0 million.

Information on the Parties to this Transaction

CPC Management is ultimately owned as to 100% by the spouse of Mr. Sin, being one of the Directors, and is a limited liability company established in the PRC. CPC Management is a private equity fund manager registered with the Asset Management Association of China (中國證券投資基金業協會), and is principally engaged in the investment and management of funds.

Shenzhen Zhongshouyou is one of the PRC Operating Entities controlled by the Group through the Contractual Arrangements, and is accounted for as a subsidiary of the Company. It is principally engaged in the mobile game publishing and operation businesses.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, both SMAIGF and Shenzhen Shengxin and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. The ultimate beneficial owners of SMAIGF and Shenzhen Shengxin are as below:

(i) SMAIGF is ultimately owned as to 100% by Shenzhen Finance Bureau (深圳市財政局) (formerly known as Shenzhen Municipal Finance Commission) (深圳市財政委員會)), a governmental authority of Shenzhen, which is responsible for the application and administration of fiscal funds of Shenzhen Municipal Government and the relevant work in relation to governmental investment guiding funds; and

(ii) Shenzhen Shengxin is ultimately owned as to 60% by Mr. MA Zhiqiang (being one of the directors of CPC Management) and as to 40% by Ms. LIU Simin (being the spouse of Mr. MA Zhiqiang).

The Special Rights of SMAIGF

SMAIGF, a limited partner of the Partnership and a policy guided fund with the vision to encourage angel investment of social capital in strategic emerging industries and promote transformation of traditional industries in Shenzhen, was entitled to certain special rights with its 40% partnership interests.

According to the partnership agreement, the general partner of the Partnership shall obtain SMAIGF's approval before accepting additional capital contribution, and the nomination of investment decision committee members of the Partnership shall be approved by SMAIGF and other partners with more than two-thirds of the interests in the Partnership at a partners meeting. The Directors considered that the equity-holding arrangement among the partners and the approval arrangement for the nomination of the investment decision committee members would not be prejudicial to Shenzhen Zhongshouyou. This is because approval from Shenzhen Zhongshouyou must essentially be obtained in order to meet the requirement for "more than two-thirds of the interest in the Partnership" since no single partner (including SMAIGF) holds more than two-thirds of the interest in the Partnership and is able to approve the nomination of the investment decision committee members individually.

The special rights of SMAIGF were agreed upon after arm's length negotiations among all the partners and with reference to the requirements under the relevant rules and regulations that SMAIGF and the Partnership are required to comply with, including (i) the Implementation Rules on Shenzhen Municipal Angel Fund of Fund (深圳市天使母基金實施細則); (ii) Application Guideline and Management Selection Measures for Funds with Investment by Shenzhen Municipal Governmental Investment Investing Fund for 2018 (深圳市政府投資引導基金2018年度擬參股子基金申報指南及管理機構遴選辦法); and (iii) the Interim Implementation Measures of Shenzhen Municipal Angel Investment Guiding Funds (深圳市天使投資引導基金暫行實施辦法). These rules and regulations limited the maximum percentage that SMAIGF is permitted to hold in the Partnership, and restricted the decision making of the Partnership.

Reasons for the Transaction

The Company considers that it would be more efficient and effective to make investments in the underlying projects through the Partnership, rather than making direct investments itself because the formation of the Partnership enables the Group to focus on its principal business and enjoy the benefits of both long-term investment return and potential strategic and synergistic effects from the underlying projects. Furthermore, with the capital contribution from other partners (in particular the considerable amount of capital contribution from SMAIGF), the Partnership has a strong fund capital base to invest in more projects, as a result of which the Group could enjoy a lower investment risk through a more diversified investment portfolio held by the Partnership. The formation of the Partnership also enables the Company to leverage on the investment knowledge and experience of CPC Management as a professional fund manager and the industrial guidance and promotion from SMAIGF as a governmental guiding fund.

The Directors (including the independent non-executive Directors) are of the view that the terms of the partnership agreement are fair and reasonable, the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group, and in the interests of the Company and its shareholders as a whole.

Listing Rules Implications

CPC Management is an associate of Mr. Sin and a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transaction contemplated under the partnership agreement constituted a connected transaction of the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the transaction is more than 0.1% but less than 5%, it is subject to the reporting and announcement requirements, but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For further details in respect of this transaction, please refer to the announcement of the Company dated 2 December 2019.

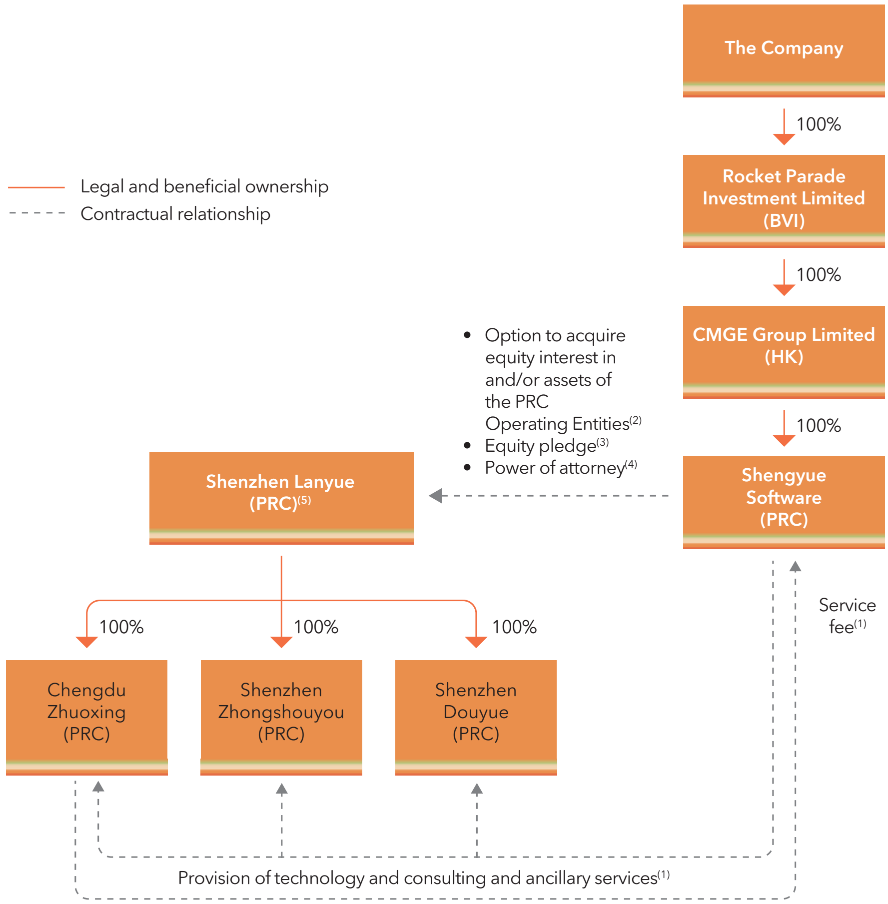
CONTRACTUAL ARRANGEMENTS

Shengyue Software, a wholly-owned subsidiary of the Company, has entered into a series of Contractual Arrangements with Shenzhen Lanyue and the PRC Operating Entities 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. Through the Contractual Arrangements, the results of operations and assets and liabilities of the PRC Operating Entities are consolidated into the results of operations and assets and liabilities of the Company under HKFRS as if they were subsidiaries of the Group.

The principal businesses of the PRC Operating Entities involve online publication and operation of online games on the mobile telecommunications network, which businesses are either restricted or prohibited for foreign investment in accordance with the Special Administrative Measures (Negative List) for Foreign Investment Access. The PRC Operating Entities are significant to the Group as they hold the requisite licenses, approvals and permits that are material for the Group's business in the PRC, including the value-added telecommunications service operating permit for internet information services, the online culture operation license and the online publication license. Most of the intellectual property rights of the Group, including trademarks, copyrights and domain names, are also held by the PRC Operating Entities.

The PRC Operating Entities contributed a significant portion of the Group's financial positions and results of operations. The total revenue generated by the PRC Operating Entities for the year ended 31 December 2019 amounted to RMB2,575.7 million, representing approximately 84.8% of the Group's total revenue. The total assets of the PRC Operating Entities as at 31 December 2019 amounted to RMB2,526.5 million, representing approximately 48.5% of the Group's total assets.

The following simplified diagram sets forth the structure of the Contractual Arrangements:



Notes:

(1) Please refer to the section headed "Exclusive Business Cooperation Agreements" below for further details.

(2) Please refer to the section headed "Exclusive Option Agreements" below for further details.

(3) Please refer to the section headed "Equity Pledge Agreements" below for further details.

(4) Please refer to the section headed "Power of Attorney" below for further details.

(5) As at the date of this annual report, Shenzhen Lanyue is wholly-owned by CMGE Mobile Tech, which in turn is held as to 44.67% by Changpei Shanghai, 22.33% by Beijing Orient L.P., 18.90% by Shanghai Pegasus, 9.20% by Zhongshouyou Brothers PRC and 4.90% by Yichong Investment.

Summary of the Contractual Arrangements

A brief description of each of the specific agreements that comprise the Contractual Arrangements is set out as follows:

(i) Exclusive Business Cooperation Agreements

On 30 May 2018, each of the PRC Operating Entities and Shengyue Software entered into the exclusive business cooperation agreements (the "**Exclusive Business Cooperation Agreements**") pursuant to which the PRC Operating Entities agreed to engage Shengyue Software as its exclusive consultant and service provider. Shengyue Software shall provide advice and recommendations to the PRC Operating Entities in respect of, among others, technology support, development, maintenance and upgrading of software, the use of software and intellectual property, web design, consulting services, and other business support and services that are necessary for the operations of the PRC Operating Entities. Without the prior written consent of Shengyue Software, during the term of the Exclusive Business Cooperation Agreements, the PRC Operating Entities shall not directly or indirectly accept from any third party services which are the same or similar to the services under the Exclusive Business Cooperation Agreements. The Exclusive Business Cooperation Agreements also provide that Shengyue Software has the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the PRC Operating Entities during the performance of the Exclusive Business Cooperation Agreements.

The PRC Operating Entities shall pay to Shengyue Software a service fee that equals the profit of the PRC Operating Entities, after off-setting the prior-year loss (if any), actual operating cost, working capital requirements confirmed by Shengyue Software, and tax of the PRC Operating Entities in any given year, and Shengyue Software shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of the PRC Operating Entities. Each of the PRC Operating Entities has agreed to pay the service fee within ten (10) days after each quarter end for the services provided in the preceding quarter.

The Exclusive Business Cooperation Agreements may be terminated by Shengyue Software by giving the PRC Operating Entities 30 days prior written notice of termination and shall be terminated upon the transfer of the entire equity interests in the PRC Operating Entities to Shengyue Software or its designated person pursuant to the Exclusive Option Agreements.

(ii) Exclusive Option Agreements

On 30 May 2018, each of the PRC Operating Entities, Shengyue Software and Shenzhen Lanyue entered into the exclusive option agreements (the "**Exclusive Option Agreements**") pursuant to which Shenzhen Lanyue jointly and severally granted to Shengyue Software or a third party designated by Shengyue Software irrevocable options to purchase, to the extent permitted by PRC laws and regulations, its equity interests in the PRC Operating Entities, entirely or partially, at RMB1 or a minimum purchase price permitted under PRC laws and regulations. Shengyue Software or the designated party may exercise such options at any time until it has acquired all equity interests of the PRC Operating Entities, subject to applicable PRC laws and regulations. It is also agreed that when the relevant PRC law permits the equity interests of the PRC Operating Entities to be directly held by Shengyue Software while it continues to operate its mobile game publishing and operation businesses, the parties will carry out all necessary actions to implement the transfer of all the shares of the PRC Operating Entities to Shengyue Software upon the exercise of the option granted under the Exclusive Option Agreements.

The Exclusive Option Agreements shall remain effective until they are terminated (i) by Shengyue Software by giving the PRC Operating Entities 30 days prior written notice of termination, or (ii) upon the transfer of the entire equity interests held by Shenzhen Lanyue in the PRC Operating Entities to Shengyue Software or its designee.

(iii) Equity Pledge Agreements

On 30 May 2018, each of the PRC Operating Entities, Shengyue Software and Shenzhen Lanyue entered into the equity pledge agreements (the "**Equity Pledge Agreements**") pursuant to which Shenzhen Lanyue agreed to pledge all of its equity interests in the PRC Operating Entities to Shengyue Software as security interest to secure performance of all its obligations and the obligations of the PRC Operating Entities under the Exclusive Business Cooperation Agreements and the Exclusive Option Agreements.

Under the Equity Pledge Agreements, if any of the PRC Operating Entities declares any dividend during the term of the pledge, Shengyue Software is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any. If Shenzhen Lanyue breaches or fails to fulfil the obligations under any of the aforementioned agreements, Shengyue Software, as the pledgee, will be entitled to dispose of the pledged equity interests. In addition, pursuant to the Equity Pledge Agreements, Shenzhen Lanyue has undertaken to Shengyue Software, among other things, not to transfer its equity interests in the PRC Operating Entities and not to create or allow any pledge thereon that may affect the rights and interests of Shengyue Software without its prior written consent.

The Equity Pledge Agreements shall remain effective until all the agreements (other than the Equity Pledge Agreements) underlying the Contractual Arrangements have been terminated.

(iv) Power of Attorney

On 30 May 2018, Shenzhen Lanyue, Shengyue Software and the PRC Operating Entities executed a power of attorney pursuant to which Shenzhen Lanyue irrevocably appointed Shengyue Software and its designee (including but not limited to the directors of Shengyue Software, Directors and their successors and liquidators replacing the Directors or the directors of Shengyue Software but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to exercise on their behalf, any and all rights that they have in respect of their equity interests in the PRC Operating Entities, including without limitation, the rights to (i) attend shareholders' meetings, (ii) exercise voting rights in shareholders' meetings to appoint directors, supervisors and senior management, (iii) decide on any acquisition or disposal of the equity interest of Shenzhen Lanyue in the PRC Operating Entities or the winding-up or dissolution of the PRC Operating Entities, (iv) file documents with relevant governmental authorities or regulatory bodies, and (v) exercise such other shareholders' rights as stipulated under applicable PRC laws, rules and regulations and the articles of association of the PRC Operating Entities.

Shenzhen Lanyue, as the registered shareholder of the PRC Operating Entities, has undertaken that it will not directly or indirectly participate in, engage in, involve in, or own any business which potentially competes with Shengyue Software and the PRC Operating Entities.

Further, the power of attorney shall remain effective for so long as Shenzhen Lanyue holds equity interest in the PRC Operating Entities, unless Shengyue Software has given written instructions to the contrary.

Reasons for adopting the Contractual Arrangements

The Company and its direct wholly-owned subsidiary, Shengyue Software, as foreign investors, are prohibited from holding equity interests in the PRC Operating Entities, which operate mobile game publishing and operation businesses and are considered to be engaged in the provision of online publication business, online game operation business and value-added telecommunications business for which foreign investment is prohibited or restricted. In order to conduct the business in China through the PRC Operating Entities, the Group, through its wholly-owned subsidiary, Shengyue Software, entered into the Contractual Arrangements.

For further details of the foreign investment restrictions, please refer to the section headed "Contractual Arrangements - Introduction" on pages 244 to 248 of the Prospectus.

Risks relating to the Contractual Arrangements

There are certain risks that are associated with the Contractual Arrangements, including:

(i) the Contractual Arrangements may not be as effective in providing operational control as direct ownership. The PRC Operating Entities or their shareholder, Shenzhen Lanyue, may fail to perform their obligations under the Contractual Arrangements;

(ii) if the PRC government finds that the agreements that establish the structure for operating the Company's business in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of the Company's interest in the PRC Operating Entities;

(iii) substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), which took effect on 1 January 2020, and how it may impact the viability of the Group's current corporate structure, corporate governance and business operations; and

(iv) the Company may lose the ability to use and enjoy assets held by the PRC Operating Entities that are material to the Group's business operations if the PRC Operating Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding;

(a) the Company conducts its business operations in China through the PRC Operating Entities by way of the Contractual Arrangements. However, certain terms of the Contractual Arrangements may not be enforceable under PRC laws;

(b) the Contractual Arrangements between Shengyue Software and the PRC Operating Entities may subject the Group to increased income tax due to the different income tax rates applicable to Shengyue Software and the PRC Operating Entities and adversely affect the results of operations of the Group; and

(c) if the Group exercises the option to acquire equity ownership and assets of the PRC Operating Entities, the ownership or asset transfer may subject the Group to substantial costs.

For further details, please refer to the section headed "Risk Factors - Risks Related to Our Contractual Arrangements" on pages 63 to 68 of the Prospectus.

Actions taken by the Group to mitigate the risks relating to the Contractual Arrangements

The Group has adopted following measures to ensure the effective operation of the Group with the implementation of the Contractual Arrangements and the Group's compliance with the Contractual Arrangements:

(i) as part of the internal control measures, major issues arising from implementation of the Contractual Arrangements will be regularly reviewed, at least on a quarterly basis, by the Board;

(ii) matters relating to compliance and regulatory enquiries from government authorities (if any) will be discussed at these regular meetings;

(iii) the relevant business units and operation divisions of the Group will report regularly, and no less frequently than on a monthly basis, to the senior management of the Company in relation to compliance and performance conditions under the Contractual Arrangements and other related matters;

(iv) the company seals, financial seals, contract seals and crucial corporate certificates of the PRC Operating Entities are kept by the Group's finance department. Any employee of the Group who wishes to use the seals will have to obtain internal approval from the business, legal and/or finance department(s) (as the case may be) of the Group, as well as approval from relevant department heads and vice presidents and the chief executive officer of the Company, depending on the importance or transaction value of the document to which the seal/seals will be affixed. The business, legal and/or finance departments constitute the Group's central management system and the persons in charge of these departments as well as the department members responsible for the custody and handling of the seals and crucial corporate certificates are employees of Shengyue Software or the Company;

(v) if necessary, legal advisers and/or other professionals will be retained to assist the Group to deal with specific issues arising from the Contractual Arrangements and to ensure that the operation and implementation of the Contractual Arrangements as a whole will comply with applicable laws and regulations;

(vi) the independent non-executive Directors will review the compliance of the Contractual Arrangements on an annual basis and their confirmation will be disclosed in the Company's annual reports;

(vii) to avoid potential conflicts of interest, the Board (including the independent non-executive Directors) will ensure that any designee or person or entity designated by Shengyue Software and Shenzhen Lanyue for the purpose of exercising any of the rights originally granted to Shengyue Software and/or such designee under the Contractual Arrangements shall be restricted to a legally-held subsidiary of the Company (and which will be under the management control of the Company) or an authorised director of the Company or a legally-held subsidiary (whom shall own fiduciary duties to the Company) and shall exclude any of its associates. The Board will also ensure that no rights shall be granted to any other third parties outside of the Group which do not owe any fiduciary duties to the Company;

(viii) the Board (including the independent non-executive Directors) will ensure that Shengyue Software will only approve and consent to the relevant operating entity carrying out the principal business and ancillary business of the Group which would otherwise be prohibited or restricted to be carried out by foreign invested entities under relevant PRC laws and regulations;

(ix) the Board (including the independent non-executive Directors) will ensure that the PRC Operating Entities shall retain and continue to hold all relevant intellectual properties, including trademarks, computer software, copyrights and domain names, required for the purpose of maintaining and renewing its operating licenses and permits as required by relevant PRC government authorities, and going forward and to the extent permissible under PRC laws and regulations, Shengyue Software or any other legally held member of the Group shall be the registered owner of the trademarks which will be material to the business of the Group; and

(x) the Group will unwind the Contractual Arrangements as soon as relevant PRC laws and regulations allow the principal business of the Group to be conducted and operated by the subsidiaries of the Company without such arrangements in place.

To ensure that Shenzhen Lanyue and the PRC Operating Entities will comply with the Contractual Arrangements, the Group also introduced the following measures:

(a) the three independent non-executive Directors will continue to play an independent role on the Board by reviewing the effective implementation of the procedures and controls referred to above and compliance with the Contractual Arrangements;

(b) pursuant to a deed of undertaking of Wuhan Husheng dated 23 August 2018, Wuhan Husheng, being the general partner of Changpei Shanghai, which indirectly held 44.67% of Shenzhen Lanyue as at the date of this annual report, undertook that it will not, and will procure that its close associates (as defined under the Listing Rules) will not, take any actions or inactions which may cause (a) Shenzhen Lanyue or the PRC Operating Entities to breach or be not in compliance with any of the agreements under the Contractual Arrangements, (b) Shengyue Software to be unable to exercise or enjoy any of its rights under any of the agreements under the Contractual Arrangements, or (c) any of the agreements under the Contractual Arrangements to become invalid, unable to be implemented or unenforceable; and

(c) in the event of the occurrence of a conflict of interests (where Shengyue Software has the sole and absolute discretion to determine whether such conflict arises), Shenzhen Lanyue shall take appropriate measures upon the consent of Shengyue Software or its designee to eliminate such conflicts, failing which Shengyue Software may exercise, to the extent permitted under the PRC laws, the option under the Exclusive Option Agreements.

Listing Rules Implications and Waiver from the Stock Exchange

The PRC Operating Entities will be treated as the Company's wholly-owned subsidiaries, and their directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as the Company's connected persons. Shenzhen Lanyue, which is the registered shareholder of the PRC Operating Entities, will be treated as a connected person of the Company. Accordingly, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

In view of the Contractual Arrangements, the Company has applied to the Stock Exchange, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Rule 14A.105 of the Listing Rules, (ii) the annual cap requirement for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as Shares are listed on the Stock Exchange subject however to the conditions provided under the waiver. For further details, please refer to the section headed "Connected Transactions" on pages 269 to 273 of the Prospectus.

Material Change or Termination of the Contractual Arrangements

During the period between the Listing Date and 31 December 2019, (i) there were no new contractual arrangements entered into, renewed or reproduced between the Group and the PRC Operating Entities, (ii) there were no material changes in the Contractual Arrangements or the circumstances under which they were adopted, and (iii) none of the structured contracts under the Contractual Arrangements mentioned above has been unwound as none of the restrictions that led to the adoption of structured contracts under the Contractual Arrangements have been removed.

Annual Review

The Directors, including the independent non-executive Directors, have reviewed the Contractual Arrangements and have confirmed that the Contractual Arrangements were entered into (i) in the ordinary and usual course of business of the Group, (ii) on normal commercial terms, and (iii) in accordance with the respective agreements governing them on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

(a) the transactions carried out during the year ended 31 December 2019 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that the profit generated by the PRC Operating Entities has been substantially retained by Shengyue Software;

(b) no dividends or other distributions have been made by the PRC Operating Entities or any non-wholly owned subsidiary of the Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and

(c) other than the Contractual Arrangements, no new contracts have been entered into, renewed and/or reproduced between the Group and the PRC Operating Entities during the year ended 31 December 2019.

The Auditor has confirmed in a letter to the Board with a copy to the Stock Exchange confirming that the transactions under the Contractual Arrangements have been approved by the Board, the transactions carried out during the year ended 31 December 2019 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that no dividends or other distributions have been made by the PRC Operating Entities or any non-wholly owned subsidiary of the Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group. The Board confirmed that the auditor has issued an unqualified letter containing their conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2019 are set out in note 35 to the consolidated financial statements in this annual report.

None of the related party transactions or continuing related party transactions (as the case may be) constitutes a connected transaction or continuing connected transaction of the Company, and the Company has complied with all disclosure requirements in Chapter 14A of the Listing Rules.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

During the year ended 31 December 2019, the Group was not involved in any actual or pending legal, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that the Group believes is likely to have a material adverse effect on the Group's business, results of operations, financial condition or reputation. However, the Group is from time to time party to various legal, arbitration or administrative proceedings arising in the ordinary course of its business as a game publisher, operator and developer, including the two litigations described below.

(i) Litigation in respect of The World of Legend – Thunder Empire (傳奇世界之雷霆霸業)

In April 2019, two claimants filed a civil complaint before the Intermediate People's Court of Wuhan City, alleging that the Group had infringed their copyright and engaged in unfair competition by marketing its game *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業), which they claim to be similar to a game titled *The Legend of Mir II* (熱血傳奇) that is co-owned by one of the claimants and an associate of Shengqu Information Technology (Shanghai) Co., Ltd. ("**Shengqu**") (the "**First Litigation**"). The game *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) accounted for 5.2% and 37.0% of the Group's total revenue for the years ended 31 December 2018 and 2019, respectively. Based on the demands of the two claimants and as advised by the Group's PRC legal adviser for the First Litigation, the Group's maximum exposures in respect of the First Litigation is that the Group may be compelled to take the game offline and pay damages in the maximum sum of RMB10.0 million.

The game was developed by the Group within the scope of the copyright of *The World of Legend* (傳奇世界) pursuant to the Group's licensing agreement with Shengqu. The Group has been advised by its PRC legal adviser for the First Litigation that the Group's game did not infringe upon the copyright of *The Legend of Mir II* (熱血傳奇) as (i) the game was developed based on the copyright of *The World of Legend* (傳奇世界), which is owned by Shengqu, and (ii) *The World of Legend* (傳奇世界) is not connected to the copyright of *The Legend of Mir II* (熱血傳奇), which has been acknowledged and confirmed by the claimants pursuant to a court mediation order in February 2007. On this basis, the Directors believe that the Group has sufficient and valid legal grounds to defend these allegations, and that the likelihood of an unfavourable court ruling is low. As at the date of this annual report, the First Litigation had not yet proceeded to trial.

Because the licensing agreement with Shengqu gives the Group the right to develop the game, and entitles the Group to seek remedies from Shengqu for any loss associated with the relevant copyright, the Directors believe that the Group's business, results of operations, financial conditions and reputation will not be materially and adversely affected by the First Litigation. As at 31 December 2019 and the Latest Practicable Date, the game *The World of Legend – Thunder Empire* (傳奇世界之雷霆霸業) remains available for download on Android and the Group continues to receive its portion of the gross billings that it generates.

(ii) Litigation in respect of The Attack – Advanced Version (攻沙加強版)

In March 2019, two claimants filed a civil complaint before the Shanghai Intellectual Property Court, alleging that the Group's game, *The Attack – Advanced Version* (攻沙加強版), infringed upon their copyright and that by marketing the game, two game publishers (both independent third parties) and Wenmai Hudong (the Group's subsidiary and the developer of the game) had engaged in unfair competition (the "**Second Litigation**"). This game accounted for 8.1% and 3.2% of the Group's total revenue for the years ended 31 December 2018 and 2019, respectively. The claimants demand damages of RMB10.0 million and that the Group takes the game offline. The game was developed by Wenmai Hudong before the Group acquired Wenmai Hudong from its shareholders (the "**Vendors**") pursuant to an equity transfer agreement dated 31 May 2018, as supplemented on 7 March 2019 (the "**Wenmai ETA**") for RMB800.0 million.

Pursuant to the Wenmai ETA, (i) one of the Vendors, as the indemnifier, has agreed to indemnify the Group for any liabilities and losses associated with facts or events that were in existence before the acquisition of Wenmai Hudong, and (ii) the Group had paid RMB299.9 million as at 31 December 2019, with the remaining consideration of RMB500.1 million payable to the indemnifier by instalments subject to a price adjustment mechanism with reference to the profits generated by Wenmai Hudong. As advised by the Group's PRC Legal Adviser, the Group is entitled to claim indemnity from the indemnifier pursuant to the Wenmai ETA if Wenmai Hudong incurs any loss associated with the Second Litigation, and to adjust the consideration payable to the indemnifier if Wenmai Hudong fails to meet the target profit guaranteed by the indemnifier under the Wenmai ETA as a result of any loss incurred in connection with the Second Litigation. As at the date of this annual report, the Second Litigation had not yet proceeded to trial. Based on the above, the Directors believe that the Group's business, results of operations, financial conditions and reputation will not be materially and adversely affected by the Second Litigation.

Compliance with Laws and Regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations which have a significant impact to the Group. As at the date of this annual report, except as disclosed in the Prospectus, the Group complied with, in all material respects, all the relevant and applicable PRC laws and regulations governing the business of property development and management and the Group has obtained all licenses, permits and certificates for the purpose of operating its business.

As at the date of this annual report, the Group is not involved in and the Board is not aware of any non-compliance incidents that might adversely affect the value of the Company's interests in them.

ISSUANCE OF SHARES AND DEBENTURES

During the period between the Listing Date and 31 December 2019, except for the allotment and issuance of 69,150,000 Shares upon the full exercise of the Over-allotment Option (as defined in the Prospectus), no issuance of Shares or debentures was made by the Company. For details, please refer to the Prospectus and the announcement of the Company dated 4 November 2019.

PERMITTED INDEMNITY PROVISION

Under the Articles of Association, every Director or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. The Company has arranged appropriate insurance cover in respect of legal action against its Directors and officers. Such permitted indemnity provisions were in force during the year ended 31 December 2019 and remained in force as at the Latest Practicable Date.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. A report on the principle corporate governance practices adopted by the Company is set out in the corporate governance report of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of the issuer's total number of issued shares must at all times be held by the public. Based on information that is publicly available and to the best knowledge of the Directors, at least 25% of the Company's total issued shares was held by the public at all times between the Listing Date and 31 December 2019, and as at the Latest Practicable Date.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands or under the Company's articles of association that require the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors have confirmed that during the period between the Listing Date and 31 December 2019, there was no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters with the management. The Audit Committee, together with the Auditor, has reviewed the Group's consolidated financial statements for the year ended 31 December 2019. There is no disagreement between the Board and the Audit Committee regarding the accounting treatment adopted by the Company.

AUDITOR

The Company has appointed Ernst & Young as its external auditor for the year ended 31 December 2019, and there was no change in auditor of the Company since the incorporation of the Company. A resolution for Ernst & Young's reappointment as the Company's auditor and the authorisation to the Board to determine their remuneration will be proposed at the Company's forthcoming annual general meeting.

By order of the Board
CMGE Technology Group Limited
Xiao Jian
Chairman

Hong Kong, 26 March 2020

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The following table presents certain information in respect of the members of the Board.

Members of the Board

Name	Age	Position	Date of Appointment as a Director
Mr. XIAO Jian (肖健)	40	Executive Director, Chairman and Chief Executive Officer	25 April 2018
Mr. SIN Hendrick (冼漢廸)	45	Executive Director and Vice Chairman	25 April 2018
Mr. MA Yuntao (馬雲濤)	45	Non-executive Director	19 June 2018
Mr. TANG Yanwen (唐彥文)	37	Non-executive Director	22 August 2018
Ms. NG Yi Kum (伍綺琴)	62	Independent Non-executive Director	20 September 2019
Mr. TANG Liang (唐亮)	42	Independent Non-executive Director	20 September 2019
Mr. HO Orlando Yaukai (何猷啟)	28	Independent Non-executive Director	20 September 2019

The biography of each Director is set out below:

Executive Directors

Mr. XIAO Jian (肖健), aged 40, is an executive Director, the chairman and the chief executive officer of the Company. Mr. Xiao is responsible for the overall business operation, management and strategic planning of the Group. Mr. Xiao has over 10 years of experience in the China mobile game industry, and is one of the founders of CMGE Group, the holding company of the Group's mobile game publishing business. He was the chief operating officer of CMGE Group from January 2011 to April 2012 and has been the chief executive officer of CMGE Group since April 2012 and a director since August 2012. Prior to that, in July 2007, Mr. Xiao founded Huiyou Digital (Shenzhen) Ltd. (匯友數碼(深圳)有限公司), a mobile game developer in the PRC, which was subsequently acquired by V1 Group, a new media company listed on the Stock Exchange (stock code: 0082) in October 2009.

Mr. Xiao is a recognised figure in the industry and was recognised as (i) a "Top Ten Influencer (十大影響力人物)" by China's Music Association's Game Committee (中國音數協遊戲工委) for three consecutive years from 2014; (ii) an "Outstanding Entrepreneur of China's Game Industry (中國遊戲行業優秀企業家)" by China Culture and Entertainment Association (中國文化娛樂協會) for three consecutive years from 2015; (iii) "The Person of the Year in the Industry (年度行業風雲人物)" by Sina Games (新浪遊戲) in 2015 and 2018; (iv) a "Top Ten Person (十大風雲人物)" by China.com (中華網) in 2015; (v) among the "Top Ten CEOs of Influence (十大影響力CEO)" in 2015 and 2016 and "The Most Influential Person in the Industry (年度行業領軍人物)" in 2017 by Mobile Hardcore Alliance (硬核聯盟); (vi) a "Top Ten Person of the Year (十大風雲人物)" by the Youthun Club (遊聯社) in 2016; (vii) "The Most Influential Person in the Industry (最具業內深度影響力人物)" jointly by "Internet Weekly (互聯網週刊)" of the Chinese Academy of Sciences (中國科學院) and the Informatisation Research Centre of the Chinese Academy of Social Sciences (中國社會科學院信息化研究中心) in 2017 and 2018; (viii) the "2017 Tianfu Award-winning Influencer (2017年度天府獎影響力人物)" by CMGC in 2017; (ix) the "Outstanding Entrepreneur of Guangdong Province (廣東省優秀企業家)" by Guangdong Provincial Enterprise Confederation (廣東省企業聯合會組織) and Guangdong Provincial Entrepreneur Association (廣東省企業家協會) in 2017 and 2019; (x) a director of Shenzhen Young Entrepreneurs Federation (深圳市青年企業家聯合會) in 2017; and (xi) an expert of the Guangdong Game Industry Association (廣東省遊戲產業協會) in 2018.

Mr. Xiao graduated from South China Normal University (華南師範大學) in February 2009 with a bachelor's degree in law through online education, and from Beijing University of Aeronautics and Astronautics (北京航空航天大學) in July 2014 with a master's degree in software engineering. Mr. Xiao also passed the qualification examinations for fund practitioners (基金從業人員資格考試) organised by the Asset Management Association of China (中國證券投資基金業協會) on basic knowledge of securities investment funds (證券投資基金基礎知識考試) in September 2017, and fund laws and regulations, professional ethics and business practices (基金法律法規,職業道德與業務規範考試) in April 2016.

Mr. SIN Hendrick (冼漢廸), aged 45, is an executive Director and the vice chairman of the Company. Mr. Sin is responsible for the overall business operation, management and strategic planning of the Group. Mr. Sin, together with Mr. Xiao, oversees the various departments of the Group including senior supervision of finance, internal control, budgeting, legal and investment, and continually devises, implements and monitors business plans and development strategies with the senior management team. He also, together with Mr. Xiao, oversees the senior management team of the Group. Mr. Sin has over 15 years of experience in corporate management, finance and investment banking. Mr. Sin has been a director and vice chairman of CMGE Group since January 2011. Mr. Sin has been serving as an independent non-executive director of Evergreen Products Group Limited, a hair product manufacturing company whose shares are listed on the Stock Exchange (stock code: 1962) since June 2017, and has been serving as an independent non-executive director of 36 Kr Holdings Inc., a publishing and data company whose shares are listed on the NASDAQ (stock code: KRKR) since November 2019.

Mr. Sin is (i) the president of the Internet Professional Association (香港互聯網專業協會), (ii) the executive vice-chairman of the Hong Kong Software Industry Association (香港軟件行業協會), (iii) a member of the Hong Kong Institute of Directors (香港董事學會). Mr. Sin has been appointed as a member of the fourteenth session of Tianjin Municipal's Committee of Chinese People's Political Consultative Conference (中國人民政治協商會議天津市第十四屆委員會). Mr. Sin has also been appointed by the Hong Kong Government as a committee member of the Youth Development Commission (青年發展委員會) and a director of Hong Kong Cyberport Management Company Limited (香港數碼港管理有限公司). Mr. Sin was awarded the Young Industrialist Award of Hong Kong of 2018 by Federation of Hong Kong Industries in November 2018. Mr. Sin was recognised as one of China's 100 Most Popular Investors as Voted by Startup Entrepreneurs (中國最受創業者歡迎投資人TOP 100) by 36Kr in 2018 and 2019, respectively, and as one of the Top 10 Investors of Chinese Cultural Industry in 2018-2019 (2018-2019年度中國文化產業十佳投資人物) by Chinese Venture (融資中國).

Mr. Sin graduated from Stanford University in June 1997 with a master's degree in engineering in economic systems and operations research. Mr. Sin received his triple bachelor's degrees in computer science/mathematics, economics and industrial management from Carnegie Mellon University in May 1996. Mr. Sin also passed the qualification examinations for fund practitioners (基金從業人員資格考試) organised by the Asset Management Association of China (中國證券投資基金業協會) on basic knowledge of securities investment funds (證券投資基金基礎知識) in November 2016, and fund laws and regulations, professional ethics and business practices (基金法律法規,職業道德與業務規範考試) in November 2016.

Non-executive Directors

Mr. MA Yuntao (馬雲濤), aged 45, is a non-executive Director. Mr. Ma has over 12 years of industry experience in investment banking and mergers and acquisitions, and has extensive experience in corporate equity investment, mergers and acquisitions, reorganisation and listing. Mr. Ma has been serving as a director of CMGE Mobile Tech since October 2015. Mr. Ma founded and has been serving as the general manager of Orient Hontai Investment Company Limited (東方泓泰資本投資有限公司) since October 2014. Before that, Mr. Ma worked as a director of the investment banking department at Citi Orient Securities Co., Ltd. (東方花旗證券有限公司) from July 2012 to September 2014, and a director of the investment banking department at Orient Securities Co., Ltd. (東方證券股份有限公司) from July 2006 to June 2012, respectively. Mr. Ma graduated from Shandong Technology and Business University (山東工商學院) (formerly known as China Coal Economy College (中國煤炭經濟學院)) in July 1997 majoring in foreign economic accounting, and obtained his master's degree in business administration from Guanghua School of Management of Peking University (北京大學) in July 2006.

Mr. TANG Yanwen (唐彥文), aged 37, is a non-executive Director. Mr. Tang has over 12 years of experience in game developing and operation. Mr. Tang has been working at Lansha Information Technology (Shanghai) Co., Ltd. (藍沙信息技術(上海)有限公司) since September 2006 and has been serving as its co-chief executive officer since June 2018. Since September 2006, Mr. Tang served as a director of its legend studio and a vice president from September 2006 to August 2016, and then as its chief operating officer and chief producer from August 2016 to June 2018. Since January 2018, Mr. Tang has also served as one of the five directors of Shengyue Network Technology (Shanghai) Co., Ltd. (盛躍網絡科技 (上海) 有限公司). Mr. Tang graduated from Shanghai Normal University (上海師範大學) in July 2005 with a bachelor's degree in applied psychology.

Independent non-executive Directors

Ms. NG Yi Kum (伍綺琴), aged 62, is an independent non-executive Director. Ms. Ng has over 12 years of experience in serving listed companies. She has been serving as (i) an executive director of Tse Sui Luen Jewellery (International) Limited, a company listed on the Stock Exchange (stock code: 0417) since December 2015, (ii) an independent non-executive director of Powerlong Commercial Management Holdings Limited, a company listed on the Stock Exchange (stock code: 9909) since December 2019, (iii) an independent non-executive director of Tianjin Development Holdings Limited, a company listed on the Stock Exchange (stock code: 0882) since July 2010, (iv) an independent non-executive director of Comba Telecom Systems Holdings Limited, a company listed on the Stock Exchange (stock code: 2342) since March 2019, and (v) an independent non-executive director of CT Vision (International) Holdings Limited (formerly known as Win Win Way Construction Holdings Limited), a company listed on the Stock Exchange (stock code: 0994) since July 2019.

From June 2013 to August 2019, Ms. Ng served as an independent non-executive director of China Power New Energy Development Company Limited, a company listed on the Stock Exchange and delisted in August 2019 (stock code: 0735). From May 2016 to May 2017, Ms. Ng served as an independent non-executive director of DS Healthcare Group, Inc., a company listed on the NASDAQ and delisted in December 2016 (stock symbol: DSKX). From September 2012 to August 2015, Ms. Ng served as an independent non-executive director of CMGE Group, a company listed on the NASDAQ and delisted in August 2015 (stock symbol: CMGE). From December 2011 to June 2013, Ms. Ng served as an independent non-executive director of China Finance Investment Holdings Limited (formerly known as Cypass Jade Agricultural Holdings Limited and Ever Fortune International Holdings Limited), a company listed on the Stock Exchange (stock code: 0875). From September 2008 to July 2015, Ms. Ng served as an independent non-executive director of Hong Kong Resources Holdings Company Limited (formerly known as Ocean Grand Chemicals Holdings Limited), a company listed on the Stock Exchange (stock code: 2882). From January 2008 to April 2014, Ms. Ng served as the chief financial officer of Country Garden Holdings Company Limited, a company listed on the Stock Exchange (stock code: 2007). From September 2005 to November 2007, she served as an executive director of Hang Lung Properties Limited, a company listed on the Stock Exchange (stock code: 0101).

Ms. Ng graduated from the Hong Kong University of Science and Technology with a master's degree in business administration in 1995. She is a fellow member of the Institute of Chartered Accountants in England and Wales, an associate of the Hong Kong Institute of Chartered Secretaries, a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, and a member of the American Institute of Certified Public Accountants.

Mr. TANG Liang (唐亮), aged 42, is an independent non-executive Director. Mr. Tang has been serving as (i) a director of Tencent Music Entertainment Group, a company listed on the New York Stock Exchange (stock symbol: TME) since April 2014, (ii) the chairman of China Investment Financial Holdings Fund Management Company Limited (中投中財基金管理有限公司) since April 2015, (iii) a director of CAS Health Industry (Beijing) Co., Ltd. (中科健康產業(北京)有限公司) since December 2016, (iv) the chairman of Hefei CICFH Industry Investment Management Co., Ltd. (合肥中投中財產業投資管理有限公司) since December 2016, (v) the chairman of Hefei China Film CICFH Investment Management Co., Ltd. (合肥中影中投中財投資管理有限公司) since March 2017, and (vi) a director of Zhongke Zhiyun Technology Co., Ltd. (中科智雲科技有限公司) since June 2018.

Mr. Tang graduated from Peking University in July 2000 with a bachelor's degree in law. Mr. Tang received a master's degree in litigation law from Peking University in July 2002, a master's degree in law from Yale University in June 2003 and a master's degree in science of law from Stanford University in June 2005.

Mr. HO Orlando Yaukai (何猷啟), aged 28, is an independent non-executive Director. Mr. Ho served as a director of Koo Tech Limited (酷奧科技有限公司) from October 2014 to January 2020, an assistant manager of UNIR (HK) Management Ltd since 2013, a director of UNIR Australia Pty Ltd Group since August 2014, a director of Tinon Investments Ltd since December 2019, a director of Skyin Ltd since March 2020, a chairman of New Blue Ocean Advertisement (Macau) Ltd since January 2018, a chief executive officer of OSMAN Entertainment Ltd since May 2018, a director of Tung Wah Group of Hospitals (東華三院) since April 2016, and a general manager of Guangzhou Luhu Golf & Country Club (廣州麓湖高爾夫球鄉村俱樂部) since March 2016. Mr. Ho served as (i) a member of the Standing Committee of the 12th Guangxi Zhuang Autonomous Region Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十二屆廣西壯族自治區委員會常務委員) since February 2018, and (ii) a member of the 11th Guangxi Zhuang Autonomous Region Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆廣西壯族自治區委員會) from December 2014 to January 2018. Mr. Ho has also served as (i) the executive vice-chairman of the Hong Kong CPPCC Youth Association (香港政協青年聯會) since May 2016 and the executive vice-president of the same institution from May 2014 to April 2016, (ii) the chairman of the Hong Kong Guangxi Sports Association (香港廣西體育總會) since March 2014 and the executive vice president of the same institution from November 2013 to February 2014, (iii) the executive vice-chairman of the Hong Kong Guangxi Youth Organisations (香港廣西青年聯會) since March 2014, (iv) the executive vice-president of the Federation of Hong Kong Guangxi Community Organisation (香港廣西社團總會) since November 2013, (v) the vice-chairman of the Hong Kong Volunteers Federation (香港義工聯盟) since November 2015, and (vi) the honorary president of the Anti-Drug Army of Hong Kong Limited (香港禁毒兵團) since January 2015.

Mr. Ho graduated from Bentley University in the United States with a bachelor's degree in science in corporate finance and accounting in October 2013.

SENIOR MANAGEMENT

The following table presents certain information in respect of the senior management personnel of the Group (other than the executive Directors).

Name	Age	Roles and responsibilities
Ms. LIANG Yan (梁燕)	41	A partner and a vice president of the Company responsible for the Group's internal control management, budget management, legal department management, business operation analysis and investment execution matters
Mr. WANG Ye (王曄)	33	A partner and a vice president of the Company responsible for the Group's mobile game co-publishing, traffic purchase and co-publishing promotion matters
Mr. WANG Xiaolin (王曉霖)	35	A partner and a vice president of the Company responsible for the Group's domestic online game product distribution and operations related matters
Mr. YANG Rongjie (楊榮傑)	35	A partner and a vice president of the Company responsible for the Group's marketing and advertising management
Mr. YUAN Yu (袁宇)	43	A partner and a vice president of the Company responsible for the Group's IP introduction and editorial supervision management
Mr. WANG Tao (王濤)	46	A partner and a vice president of the Company responsible for the Group's human resources and administrative management
Ms. LAI Yau Yan Gladys (黎佑欣)	40	The financial controller and company secretary of the Company

The biography of each senior management member is set out below:

Ms. LIANG Yan (梁燕), aged 41, is a partner and a vice president of the Company. Ms. Liang is primarily responsible for the Group's internal control management, budget management, legal department management, business operation analysis and investment execution matters. Ms. Liang has nearly 10 years of experience in corporate management and operation. She joined Huiyou Digital (Shenzhen) Ltd. (匯友數碼(深圳)有限公司) in January 2011 and served as its vice president from August 2012 to November 2015. Ms. Liang also served as the vice president of Shenzhen Douyue since November 2015 and then served as its partner till February 2018. Since March 2018, she has been serving as a vice president and partner of Shenzhen Shengli Huyu. Since May 2018, she has also been serving as the director of Softstar Technology (Beijing) Company Limited (軟星科技(北京)有限公司). Prior to joining the Group, (i) from August 2008 to August 2009 and from August 2009 to August 2012, Ms. Liang worked at Shenzhen KKFUN Software Development Co., Ltd. (深圳市快樂風軟件開發有限公司) as a vice director of the network business department and a director of its production development department, respectively. She received her bachelor's degree in engineering in mechanical design and manufacture from Northwest Textile Science and Technology University (西北紡織工學院, which was renamed as Xi'an Polytechnic University (西安工程大學) in 2006) in July 2000.

Mr. WANG Ye (王曄), aged 33, is a partner and a vice president of the Company. Mr. Wang is primarily responsible for the Group's mobile game co-publishing, traffic purchase and co-publishing promotion matters. Mr. Wang has nearly twelve years of experience in the game and technology industry. He joined the Group in January 2016 and served as the vice president of Beijing China Mobile Games Technology Co., Ltd. (北京中手游技術有限公司) from January 2016 to November 2016. Mr. Wang has also been serving as the vice president and partner of Shenzhen Shengli Huyu since March 2018. Prior to joining the Group, (i) from March 2014 to January 2016, Mr. Wang worked as a general manager of the gaming centre of Youku Network Technology (Beijing) Co., Ltd. (優酷網絡技術(北京)有限公司), (ii) from March 2012 and March 2014, he worked as an operation manager of the personal computer online game department at Beijing Star World Technology Company Ltd. (北京世界星輝科技有限責任公司), where he was responsible for the operation of exclusively licensed games, and (iii) from September 2010 to March 2012, he worked as an operation manager at the project operation department of Shanghai Youzu Information Technology Co., Ltd. (上海遊族信息科技有限公司), an interactive entertainment provider, where he was responsible for operation team building and operation management. Mr. Wang received his bachelor's degree in electronic information engineering from Nanchang University (南昌大學) in July 2008.

Mr. WANG Xiaolin (王曉霖), aged 35, is a partner and a vice president of the Company. Mr. Wang is primarily responsible for the Group's domestic and overseas online game product distribution and operations related matters. Mr. Wang has nearly ten years of experience in the game and technology industries. He joined the Group in February 2014 and has consecutively served as a vice general manager and general manager of Chengdu Zhuoxing, and as vice general manager of Tianjin Suiyue Technology Co., Ltd. (天津隨悦科技有限公司). Mr. Wang has also been a partner of the Company and vice president of the Group since November 2016. Prior to joining the Group, Mr. Wang worked at former cooperative product department of Tencent Technology (Shenzhen) Co., Ltd. (騰訊科技(深圳)有限公司) as an operation manager of WARFACE product from December 2010 to February 2014, where he was primarily responsible for overall project operation and team management. He received his bachelor's degree of engineering in inorganic non-metal material engineering from Hehai University (河海大學) in June 2007 and his master of science in technology management from University of Bridgeport in May 2009.

Mr. YANG Rongjie (楊榮傑), aged 35, is a partner and a vice president of the Company. He is responsible for the Group's marketing and advertising management. Mr. Yang has nearly 10 years of experience in the game and technology industries. He joined the Group in December 2016 and has been serving as the vice president and partner of Shenzhen Zhongshouyou since then. Prior to joining the Group, (i) from November 2014 to November 2016, he served as a vice president (marketing) of Shenzhen iDreamsky Technology Limited (深圳創夢天地科技有限公司), (ii) from July 2011 to August 2013, he worked at Tencent Technology (騰訊科技(深圳)有限公司), (iii) from October 2010 to June 2011, he served as the marketing manager of Ninth City Computer Technology Consulting (Shanghai) Co., Ltd. (第九城市計算機技術諮詢(上海)有限公司), responsible for the overall marketing of web games, and (iv) from August 2009 to September 2010, Mr. Yang served as a marketing planning manager of Perfect World Game Co., Ltd. (完美世界遊戲有限責任公司) (formerly known as Shanghai Perfect World Network Technology Co., Ltd. (上海完美世界網絡技術有限公司)), responsible for marketing and promotion of games. Mr. Yang graduated from Shandong University of Technology (山東理工大學) with a bachelor's degree in urban planning in July 2007.

Mr. YUAN Yu (袁宇), aged 43, is a partner and a vice president of the Company. He is responsible for the Group's IP introduction, CP introduction and IP authorisation. Mr. Yuan has nearly 20 years of experience in business management and operation. He joined the Group in May 2015 and served as a general manager of a copyright centre of Shenzhen Lanyue and has been serving as its vice president and partner since November 2016. Mr. Yuan has also been serving as the vice president and partner of Shenzhen Shengli Huyu since March 2018. Prior to joining the Group, (i) from July 2013 to May 2015, he served as a senior strategic project manager of Walt Disney (Beijing) Co., Ltd. (華特迪士尼(北京)有限公司) and then as the senior business development manager of Walt Disney Company (China) Limited (華特迪士尼(中國)有限公司), responsible for channel docking, authorisation of intellectual property and games and channel related matters, (ii) from August 2012 to June 2013, he served as an assistant vice president of ME Marketing Centre of Madhouse Inc. (上海億動商道廣告有限公司), responsible for marketing and customer management, (iii) from February 2006 to April 2011, he served as the regional marketing director of Huayou Times Technology Development Co., Ltd (華友時代科技發展有限公司) (formerly known as Shengda Wireless (Beijing) Technology Development Co., Ltd. (盛大無綫(北京)技術發展有限公司)), responsible for sales and marketing in the region, and (iv) from June 1999 to March 2001, Mr. Yuan served as a regional supervisor of handheld products of Lenovo (Beijing) Co., Ltd. (聯想(北京)有限公司). He graduated from Northeastern University (東北大學) with a bachelor's degree in engineering in July 1999.

Mr. WANG Tao (王濤), aged 46, is a partner and a vice president of the Company. Mr. Wang is responsible for the Group's human resources and administrative management. Mr. Wang has over twelve years of experience in talent training and development in game industry and business operations. He joined the Group in November 2015 and served as a vice president of Shenzhen Lanyue from November 2015 to March 2016. Mr. Wang then served as a vice president of Beijing China Mobile Games Technology Co., Ltd. (北京中手游技術有限公司) in April 2016 and has been serving as its partner since November 2016. Mr. Wang also served as a partner and vice president of Shenzhen Douyue from April 2017 to February 2018. Mr. Wang served as the partner and vice president of Shenzhen Shengli Huyu from March 2018 to May 2018 and has been serving as a partner and vice president of Shengyue Software (Shenzhen) Company Limited since June 2018. Prior to joining the Group, (i) from April 2014 to November 2015, he served as a chief manager of Guangzhou Zhengyou Information Technology Co., Ltd. (廣州正遊信息科技有限公司), responsible for development and distribution of web and mobile game projects and the daily operation of the company, (ii) from January 2013 to March 2014, he served as a human resources director of Guangzhou Feiying Information Technology Co., Ltd. (廣州菲音信息科技有限公司), (iii) from December 2007 to April 2011, he served as a manager of the training centre of Changyou.com Limited (北京暢遊天下網絡技術有限公司), responsible for staff training, and (iv) from April 2011 to October 2012, he served as a senior manager of Beijing Oak Pacific Interactive Information Technology Co., Ltd. (北京千橡網景科技發展有限公司), responsible for the development of personnel organisation and staff training. Mr. Wang graduated from Beijing Wuzi University (北京物資學院) majoring in marketing with a bachelor's degree in business administration in July 1999.

Ms. LAI Yau Yan Gladys (黎佑欣), aged 40, is the financial controller and company secretary of the Company. Ms. Lai joined China Mobile Games and Entertainment Group (HK) Limited, an indirect wholly-owned subsidiary of the Company, as an assistant finance manager in July 2014, and was promoted to financial controller in April 2018. Ms. Lai was also appointed as the secretary of the Company on 19 June 2018. Ms. Lai has over 15 years of experience in financial reporting as well as management reporting. Ms. Lai served as an assistant accounting manager at Hutchison Whampoa Properties Limited from June 2012 to April 2014, a senior accountant at PCCW Limited from October 2008 to June 2012, an accountant at Hutchison Telecommunications International Limited from October 2005 to April 2008 and a senior accountant at Ernst & Young from September 2001 to September 2005.

Ms. Lai graduated from the University of British Columbia in Canada with a bachelor's degree in commerce in accounting in May 2001. Ms. Lai has also been a member of the American Institute of Certified Public Accountants since September 2004, a member of the Hong Kong Institute of Certified Public Accountants since September 2005 and an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators since March 2020. She was qualified as a Certified Internal Auditor of the Institute of Internal Auditors in July 2008. She is also a Chartered Global Management Accountant accredited by the American Institute of Certified Public Accountants in February 2012.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound governance policies and measures, and the Board is responsible for performing such corporate governance duties. The Board will continue to review and monitor the corporate governance of the Company, as well as various internal policies and procedures, including those applicable to employees and Directors with reference to the CG Code and other applicable legal and regulatory requirements.

During the period between the Listing Date and 31 December 2019, the Company complied with the applicable code provisions of the CG Code, except for a deviation from code provision A.2.1 of the CG Code.

Roles of Chairman and Chief Executive Officer

Pursuant to code provision A.2.1 of the CG Code, the responsibilities of the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Group does not have a separate chairman and chief executive officer and Mr. Xiao currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board currently comprises two executive Directors (including Mr. Xiao), two non-executive Directors and three independent non-executive Directors, and therefore has a fairly strong independence element in its composition. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider separating the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Company as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the period between the Listing Date and 31 December 2019. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management members or relevant employees of the Group for the period between the Listing Date and 31 December 2019.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Company, oversees the Company's strategic decisions and monitors business and performance. The Board decides all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors may have recourse to independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

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

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

Delegation by the Board

The Board has delegated the authority and responsibility for day-to-day management and operation of the Company to the senior management of the Company. The senior management team meets as frequently as necessary to formulate policies and make recommendations to the Board. The senior management team administers, enforces, interprets and supervises compliance with the internal rules and operational procedures of the Group and conducts regular reviews, recommends and advises on appropriate amendments to such rules and procedures. The senior management team reports to the Board on a regular basis and communicates with the Board whenever required.

These delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Board Composition

The Company has a Board with a balanced composition of executive and non-executive Directors (including independent non-executive Directors).

As at 31 December 2019, the Board comprised:

- *Two executive Directors:*
  Mr. XIAO Jian *(Chairman)* and Mr. SIN Hendrick
- *Two non-executive Directors:*
  Mr. MA Yuntao and Mr. TANG Yanwen
- *Three independent non-executive Directors:*
  Ms. NG Yi Kum, Mr. TANG Liang and Mr. HO Orlando Yaukai

To the best knowledge of the Board, there is no particular relationship (including financial, business, family or other material or relevant relationship) between members of the Board or senior management members during the year ended 31 December 2019 and up to the date of this annual report.

Since the Listing Date and up to the date of this annual report, the Company has complied with the requirements under:

(i) Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise; and

(ii) Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive directors representing at least one-third of the Board.

Service Agreements and Appointment Letters

Each of the executive Directors has entered into a service agreement with the Company. Pursuant to these agreements, they have agreed to act as executive Directors for an initial term of three years with effect from the Listing Date or until the third annual general meeting of the Company since the Listing Date (whichever is sooner), subject always to re-election as and when required under the Articles of Association. Each of the service agreements can be terminated in accordance with the terms and conditions thereof or by either party giving to the other not less than one month's prior notice in writing.

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company. Pursuant to these appointment letters, they have agreed to act as non-executive Directors or independent non-executive Directors for a term of three years with effect from the Listing Date or until the third annual general meeting of the Company since the Listing Date (whichever is sooner), subject always to re-election as and when required under the Articles of Association. Each of the appointment letters can be terminated in accordance with the terms and conditions thereof or by either party giving to the other not less than one month' prior notice in writing.

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

BOARD MEETINGS

The Company adopts the practice of holding Board meetings regularly, at least four times a year for Board meetings, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for regular Board meetings.

For other Board and Board Committees meetings, reasonable notice is generally given. The agenda and accompanying board papers are despatched to the Directors or Board Committees members at least one day before such meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committees members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting. Minutes of meetings are kept by the company secretary of the Company with copies circulated to all Directors for information and records.

The matters considered by the Board and the Board Committees and the decisions reached are recorded in sufficient detail in the minutes of the Board meetings and Board Committees. Such details include, but are not limited to, any concerns raised by the Directors. The draft minutes of each Board meeting and Board Committees meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

Between the Listing Date and 31 December 2019, the Board convened one board meeting, and the Company did not hold any general meeting. The table below sets forth the attendance records of the Directors at the Board meeting:

Name of Director	Number of Board meeting attended between the Listing Date and 31 December 2019	Attendance rate
EXECUTIVE DIRECTORS		
Mr. XIAO Jian	1/1	100%
Mr. SIN Hendrick	1/1	100%
NON-EXECUTIVE DIRECTORS		
Mr. MA Yuntao	1/1	100%
Mr. TANG Yanwen	1/1	100%
INDEPENDENT NON-EXECUTIVE DIRECTORS		
Ms. NG Yi Kum	1/1	100%
Mr. TANG Liang	1/1	100%
Mr. HO Orlando Yaukai	1/1	100%

BOARD COMMITTEES

To oversee particular aspects of the Company's affairs, the Board has established four committees, each of which has been delegated responsibilities and reports back to the Board. These four Board Committees are Audit Committee, Nomination Committee, Remuneration Committee, and Corporate Governance Committee. The roles and functions of these committees are set out in their respective terms of reference. The terms of reference of each of these Board Committees will be revised from time to time to ensure that they continue to meet the needs of the Company and to ensure compliance with the CG Code. The terms of reference of the Board Committees are available on the Company's website www.cmge.com and the Stock Exchange's website www.hkexnews.hk.

Audit Committee

The Company has established an Audit Committee in compliance with Rule 3.21 of the Listing Rules, which consisted of three members as at 31 December 2019, namely Mr. MA Yuntao, a non-executive Director, Ms. NG Yi Kum and Mr. TANG Liang, both of whom are independent non-executive Directors. Ms. NG Yi Kum is the chairlady of the Audit Committee. None of the members of the Audit Committee served as a partner or former partner in the Company's external auditor, Ernst & Young.

The primary duties of the Audit Committee include (i) making recommendations to the Board on the appointment, reappointment and removal of the external auditor; (ii) reviewing the Company's financial information; and (iii) overseeing the Company's financial reporting system, risk management and internal control systems. For details, please refer to the terms of reference of the Audit Committee on the websites of the Stock Exchange and the Company.

As the Shares of the Company were listed on the Stock Exchange on 31 October 2019, the Audit Committee did not have any matter that needs to be discussed with the Auditor, Ernst & Young, during the period between the Listing Date and 31 December 2019. Therefore, the Audit Committee neither held any meeting of the Audit Committee nor held any meeting with the Auditor during the period.

Remuneration Committee

The Company has established a Remuneration Committee in compliance with Rule 3.25 of the Listing Rules, which consisted of three members as at 31 December 2019, namely Mr. SIN Hendrick, an executive Director, Ms. NG Yi Kum and Mr. HO Orlando Yaukai, both of whom are independent non-executive Directors. Mr. HO Orlando Yaukai is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include (i) making recommendations to the Board on the Company's policies and structures for all Directors' and senior management personnel's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policies; and (ii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives. For details, please refer to the terms of reference of the Remuneration Committee on the websites of the Stock Exchange and the Company.

Details of the remuneration of the members of the Board for the year ended 31 December 2019 are set out in note 8 to the consolidated financial statements in this annual report.

The remuneration of the senior management members of the Company by band during the year ended 31 December 2019 are set out below:

Remuneration Band	Number of individuals
Nil to HK$3,500,000	1
HK$3,500,001 to HK$7,000,000	1
HK$7,000,001 to HK$10,500,000	5

As the Shares of the Company were listed on the Stock Exchange on 31 October 2019, the Remuneration Committee did not have any matter that needs to be discussed during the period between the Listing Date and 31 December 2019. Therefore, the Remuneration Committee did not hold any meeting during the period.

Nomination Committee

The Company has established a Nomination Committee, which consisted of three members as at 31 December 2019, namely Mr. XIAO Jian, an executive Director, and Mr. TANG Liang and Mr. HO Orlando Yaukai, both of whom are independent non-executive Directors. Mr. XIAO Jian is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include (i) reviewing the structure, size, composition (including skills, knowledge and expertise) and diversity (including but not limited to gender, age, cultural and educational background, race, skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; and (ii) identifying individuals who are qualified or suitable to become a member of the Board and to select or make recommendations to the Board on the selection of individuals nominated for directorships. For details, please refer to the terms of reference of the Nomination Committee on the websites of the Stock Exchange and the Company.

As the Shares of the Company were listed on the Stock Exchange on 31 October 2019, the Nomination Committee did not have any matter that needs to be discussed during the period between the Listing Date and 31 December 2019. Therefore, the Nomination Committee did not hold any meeting during the period.

Corporate Governance Committee

The Company has established a Corporate Governance Committee, which consisted of three members as at 31 December 2019, namely Mr. SIN Hendrick, an executive Director, and Ms. NG Yi Kum and Mr. HO Orlando Yaukai, both of whom are independent non-executive Directors. Ms. NG Yi Kum is the chairlady of the Corporate Governance Committee.

The primary duties of the Corporate Governance Committee include (i) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; and (ii) reviewing and monitoring the training and continuous professional development of the Company's Directors and senior management personnel. For details, please refer to the terms of reference of the Corporate Governance Committee on the websites of the Stock Exchange and the Company.

As the Shares of the Company were listed on the Stock Exchange on 31 October 2019, the Corporate Governance Committee did not have any matter that needs to be discussed during the period between the Listing Date and 31 December 2019. Therefore, the Corporate Governance Committee did not hold any meeting during the period.

BOARD DIVERSITY POLICY

The Company recognises and embraces the benefits of having a diverse Board and see increasing diversity at the Board level as an essential element in maintaining its competitive advantage. The Nomination Committee is responsible for monitoring the implementation of the board diversity policy of the Company, and shall review and amend this diversity policy, as appropriate, to ensure its effectiveness.

When reviewing the size and composition of the Board and searching for and recommending candidates to act as the Company's directors, the Nomination Committee shall, taking into account the business model and specific needs of the Company, consider the diversity of the Board in various aspects, including but not limited to, gender, age, cultural and educational background, ethnicity, professional qualifications, skills, knowledge, length of service in the Group and industrial and regional experience. The final appointment recommendation shall be made to the Board by the Nomination Committee based on the value that the selected candidates will bring to the Board after taking into account the relevant aspects mentioned above.

DIRECTOR NOMINATION POLICY

Appointment of Directors

In accordance with article 16.2 of the Articles of Association, the Board shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Any Director required to stand for re-election pursuant to article 16.2 of the Articles of Association shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he or she retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated offices by electing a like number of persons to be Directors.

The procedures and processes of appointment, re-election and removal of Directors are set out in the Articles of Association. Whilst the overall responsibility for the selection and appointment of directors rests with the Board, the Board has delegated general responsibilities and authority to the Nomination Committee to identify, screen and recommend to the Board appropriate candidates to serve as directors of the Company, to oversee the process for evaluating the performance of the Board, and to develop and recommend to the Board nomination guidelines which shall be consistent with any applicable laws, regulations and listing standards.

In evaluating and selecting candidates for directorship, the Board will consider factors including (i) the structure, size, composition (including skills, knowledge and expertise) and diversity (including but not limited to gender, age, cultural and educational background, race, skills, knowledge and experience) of the Board; (ii) the requirement of the Board to have independent directors in accordance with the Listing Rules; and (iii) the candidate's willingness and ability to devote adequate time to discharge duties as a member of the Board.

The Nomination Committee and/or the Board will evaluate candidates based on the criteria as set out above, rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable) and then recommend to the Board the appointment of the appropriate candidate for a directorship, as applicable. For any person that is nominated by a Shareholder for election as a director at the general meeting of the Company, the Nomination Committee and the Board will evaluate such candidate based on the criteria as set out above and where appropriate, make recommendation to Shareholders in respect of the proposed election of director at the general meeting.

Re-election of Directors

In accordance with article 16.18 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

For the re-election of a director at general meeting, the Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and their level of participation and performance on the Board, and then make recommendations to Shareholders in respect of the proposed re-election of such director at the general meeting.

The three Directors who will retire by rotation are Ms. NG Yi Kum, Mr. TANG Liang and Mr. HO Orlando Yaukai, each of whom is an independent non-executive Director having been appointed by the Board as an independent non-executive Director on 20 September 2019. All retiring Directors, being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting.

Details of the Directors to be re-elected at the Company's forthcoming annual general meeting will be set out in the circular to the Shareholders to be published and despatched in due course.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

The Company acknowledges the importance of Directors participating in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. To this end, the Company provides the Directors with necessary information to ensure that he or she has a proper understanding of the Group's operations and businesses as well as his or her responsibilities under the relevant laws and regulations. The newly appointed Directors were also provided with a detailed induction to the Group's businesses by senior management.

Before the Listing, the Company arranged its Hong Kong legal advisers, Kirkland & Ellis, to provide training to each Director on topics including corporate governance and legal and regulatory updates to deepen their understanding of the Listing Rules and other relevant laws and regulations. The Directors are also encouraged to participate in continuous professional development presented by professional institutions.

The training received by the Directors during the year ended 31 December 2019 is summarised below:

	Training Areas		
Name of Director	Corporate Governance	Legal and Regulatory	Businesses/ Directors' Duties
EXECUTIVE DIRECTORS			
Mr. XIAO Jian	✓	✓	✓
Mr. SIN Hendrick	✓	✓	✓
NON-EXECUTIVE DIRECTORS			
Mr. MA Yuntao	✓	✓	✓
Mr. TANG Yanwen	✓	✓	✓
INDEPENDENT NON-EXECUTIVE DIRECTORS			
Ms. NG Yi Kum (1)	✓	✓	✓
Mr. TANG Liang (1)	✓	✓	✓
Mr. HO Orlando Yaukai (1)	✓	✓	✓

Note:

(1) Appointed with effect from 20 September 2019.

DIVIDEND POLICY

Subject to the requirements of the Articles of Association, Cayman Islands law and other applicable laws and regulation, the Board has absolute discretion to recommend any dividend. The determination to pay dividends will be made at the discretion of the Board and will depend upon the Group's earnings and financial condition, operating requirements, capital and investment requirements, level of indebtedness and any other factors that the Board may deem relevant. The Company will continue to re-evaluate its dividend policy in light of its financial condition and the prevailing economic environment.

The dividends, interests and bonuses and any other benefits and advantages in the nature of income receivable in respect of the Company's investments, and any commissions, trusteeship, agency, transfer and other fees and current receipts of the Company shall, subject to the payment thereof of the expenses of management, interest upon borrowed money and other expenses which in the opinion of the Board are of a revenue nature, constitute the profits of the Company available for distribution.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the exclusive benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof or be required to account for any money earned thereon. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall be reverted to the Company and after such forfeiture no member or other person shall have any right to or claim in respect of such unclaimed dividends or bonuses.

For the avoidance of doubt, no assurance is given or implied that dividends will be paid in any particular amount (or at all) for any given period notwithstanding the adoption of this policy. If the Board decides to recommend, declare or pay dividends, the form, frequency and amount will depend upon the situation and applicable factors at the relevant time. The Board will review the dividend policy as appropriate from time to time.

FINANCIAL REPORTING

Directors' Responsibility

The Directors are responsible for overseeing the preparation of the Company's financial statements for the year ended 31 December 2019 which give a true and fair view of the state of affairs of the Group's results and cash flow.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The management has provided to the Board such explanations and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with updates on the Group's performance, positions and prospects from time to time.

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 as at 31 December 2019. Accordingly, the Directors have confirmed that the financial statements for the year ended 31 December 2019 be prepared on a going concern basis.

Auditor's Responsibility

A statement from the Auditor about its reporting responsibilities on the audited consolidated financial statements is set out on pages 89 and 90 of this annual report.

Auditor's Remuneration

The table below sets forth the remuneration for the audit and non-audit services provided by the Auditor for the year ended 31 December 2019:

Type of Services	Amount *(RMB)*
Audit services	3,000,000
Non-audit services	–
Total	3,000,000

In addition, Ernst & Young was appointed by the Company as the reporting accountant for its initial public offering of Shares, in relation to which total fees paid or payable to Ernst & Young during the year ended 31 December 2019 was RMB7.2 million. RMB5.6 million of the fee was recorded as administrative expenses for the year ended 31 December 2019 and RMB1.6 million was accounted for as a deduction in equity upon the Listing.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Group has adopted and implemented a robust risk management and internal control system for its business operations, including (i) financial reporting; (ii) information risk management; (iii) legal compliance; (iv) intellectual property rights management; and (v) human resources management. The Board is responsible for maintaining a sound and effective risk management and internal control system in order to safeguard the Group's assets and Shareholders' interests, and is also responsible for reviewing the effectiveness of the Group's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate. The Group's internal control and risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable rather than absolute assurance against material misstatement or loss.

The Company also has an internal audit function, which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's and its subsidiaries' risk management and internal control system, and reports their findings to the Board on, at least, an annual basis. The Company implements and strictly enforces procedures on inside information according to the relevant procedures stated under the "*Guidelines on Disclosure of Inside Information*" promulgated by the SFC in June 2012.

The Group's internal control system includes a well-established organisational structure with clearly defined lines of responsibility and authority. The day-to-day departmental operations are entrusted to individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time. Each department is also required to keep the Board informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis so as to identify, evaluate and manage significant risks in a timely manner.

The Board has reviewed the effectiveness of the internal control and risk management systems of the Group for the year ended 31 December 2019 to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions to be adequate. The review was conducted through discussions with the management of the Company, its external and internal auditors and the assessment performed by the Audit Committee. The Board also made reference to the results of the agreed-upon procedures in connection with the internal control of the Company performed by the internal control consultant engaged by the Company in preparation for the Listing, and these procedures did not identify any material internal control deficiencies of the Group.

The Board believes that the existing risk management and internal control systems are adequate and effective, in particular, for financial reporting and Listing Rules compliance as well as for resolving internal control defects (if any).

COMPANY SECRETARY

Ms. LAI Yau Yan Gladys is the company secretary of the Company. For the year ended 31 December 2019, Ms. Lai has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training to update her skills and knowledge. Her biographical detail is set out under the section headed "Biographies of Directors and Senior Management" in this annual report.

SHAREHOLDERS' RIGHTS

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

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

Convening of an Extraordinary General Meeting and Putting Forward Proposals

According to the Articles of Association, general meetings shall be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid-up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and signed by the requisitionist(s). If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Procedures for Shareholders to Propose a Person for Election as a Director of the Company

Shareholders may propose a person for election as a director of the Company. The relevant procedures are available for viewing on the Company's website at www.cmge.com.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

Shareholders' Enquiries and Proposals

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

Enquiries from the Shareholders for the Board or the Company, or proposals from the Shareholders for consideration at Shareholders' meetings, may be directed to the Company's investor relations team:

By post:	13th Floor, 8 Wyndham Street, Central, Hong Kong
By fax:	(852) 2763 4168
By email:	serenashen@cmge.com

The enquiries and proposals received by the Company are handled on a case-by-case basis after due consideration by the investors relations team, relevant management and the Board, as appropriate.

Changes to the contact details above will be communicated through the Company's website at www.cmge.com, which also contains information and updates on the Group's business developments and operations, as well as press releases and financial information.

Shareholders can also direct their enquiries about their shareholdings to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, whose address is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Shareholder Meetings

The annual general meeting of the Company provides opportunities for the Shareholders to communicate directly with the Directors. The chairman of the Board and the chairmen of the Board Committees will attend annual general meetings to answer Shareholders' questions. The Auditor will also attend annual general meetings to answer questions about the conduct of the audit, the preparation and content of the Auditor's report, the accounting policies and auditor independence.

The Company encourages the Shareholders to attend annual general meetings and other general meetings so the Shareholders can communicate with the Board, and exercise their right to vote.

Shareholders' Communication Policy

To promote effective communication with the Shareholders, the Company has adopted a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders. The Company also maintains a website at www.cmge.com, where up-to-date information on the Company's business operations, developments, financial information, corporate governance practices and other information are available for public access.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company's current Articles of Association were adopted on 20 September 2019, and are available for viewing on the websites of the Company and the Stock Exchange. There have been no changes in the Company's Articles of Association since the Listing.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is pleased to issue its first environmental, social and governance report for the year 2019. As a responsible corporate citizen, the Group adheres to the concept of sustainable development, actively fulfils its corporate social responsibilities, incorporates environmental protection and environmental management into its business decisions, and is committed to building a healthy and harmonious online and offline ecosystem by actively investing in its internet platform and carrying out charitable activities. Integrating environmental, social and governance and managerial considerations into daily operations has been part of the Group's corporate development strategies at all times. In addition, the Group has been focusing on maintaining closer connections with different stakeholders, listening to the voices of its gamers, caring for and growing with its employees, and taking on more social responsibilities.

This report summarises the Group's strategies, practices and vision for the above environmental, social and governance related issues in 2019.

REPORTING SCOPE AND REPORTING PERIOD

Unless otherwise stated, the scope of this report covers the offices of the Group in Shenzhen, Shanghai and Beijing. This report covers the period from 1 January 2019 to 31 December 2019, which is consistent with the financial year covered by this annual report.

Preparation Basis of this Report

This report was prepared in accordance with the disclosure obligations under the Environmental, Social and Governance Reporting Guideline set out in Appendix 27 to the Listing Rules. This report has complied with all the "comply or explain" provisions, as well as the principles of materiality, quantitative, balance and consistency.

Contact us

The Group values the opinions of the readers of this report. If you have any questions or suggestions about this report, you are welcome to give your feedback to the Company's investor relations team:

By post: 13th Floor, 8 Wyndham Street, Central, Hong Kong

By fax: (852) 2763 4168

By email: serenashen@cmge.com

Source of Data and Reliability Statement

The information disclosed in this report is sourced from the internal documents of the Group, statistical reports or relevant public information. The Group has confirmed that there are no false representations, misleading statements or material omissions in this report, and is responsible for the truthfulness, accuracy and completeness of its contents.

Confirmation and Approval

The Group's management team has confirmed to the Board that during the year ended 31 December 2019, the Group's risks management and internal monitoring system concerning environment, society and governance was effective.

This report was approved by the Board on 26 March 2020 at 13th Floor, 8 Wyndham Street, Central, Hong Kong. This report is available in both English and Chinese versions. If there is any inconsistency between the Chinese and English versions of this report, the Chinese version shall prevail. The electronic version of this report is available on the websites of the Stock Exchange www.hkexnews.hk and the Company www.cmge.com.

Stakeholder Identification and Communication

In the course of its operation, the Group continues to pay attention to the major issues that the stakeholders are concerned about. The Group understands the expectations and needs of its stakeholders through comprehensive and transparent communication, and continue to improve the Group's sustainable development strategies and plans based on the opinions of its stakeholders, so as to consolidate mutual trust and cooperative relationships, jointly realise its sustainable development plans, and create a future of sustainable economic growth, environmental friendliness and social development.

Major issues concerning stakeholders and corresponding measures

STAKEHOLDERS	FOCUS	COMMUNICATION CHANNELS
Shareholders and investors	• Business strategies • Investment return • Corporate image • Compliance operations	• General meetings • Public disclosure of the Company • Company's website
Government and regulatory authorities	• Compliance operations • Tax payment according to law • Information disclosure and reporting materials	• Company's website • Public disclosure of the Company
Industry associations	• Compliance operations	• Visits • Meetings • Seminars • Exchange activities
Suppliers and business partners	• Compliance operations • Quality of products and service	• Agreements • Tenders • Review and evaluation
Employees	• Remuneration and benefits • Working environment and safety • Diversification and equal opportunities • Training and room for career development	• Forums • Staff training • Group activities for employees • Staff satisfaction survey • Monthly magazine of the Company
Game players	• Product quality • Personal privacy protection	• Company's website • Online customer service • User services agreement • Online and offline promotion activities
Community	• Community development • Public welfare • Employment opportunities • Ecological environment	• Community activities • Volunteer activities • Media enquiry • Promotion activities • Community communication meetings • Press releases and announcements

ENVIRONMENT

Emissions

As a game publisher and developer, the Group's business does not have a significant impact on environment. However, the Group still pays attention to environmental protection and incorporates the concept of sustainable development into its daily management to enhance the environmental awareness of the employees of the Group. The Group strictly abides by relevant laws and regulations on environmental protection, including but not limited to Environmental Protection Law (《環境保護法》), Law on Air Pollution Prevention and Control (《大氣污染防治法》), Water Pollution Prevention and Control Law (《水污染防治法》), Solid Waste Pollution Prevention and Control Law (《固體廢物污染環境防治法》) and Energy Conservation Law (《節約能源法》) of the PRC.

Exhaust Gas

The Group's business does not involve significant gaseous fuel consumption emissions in its ordinary course of business. The most significant source of emissions of the Group is emissions from vehicles owned by the Group. The types and volumes of these emissions of the Group during the year ended 31 December 2019 were as follows:

MAJOR EMISSIONS	UNIT	VOLUME
Nitrogen Oxides (NOx)	kg	17.85
Sulphur Dioxide (SOx)	kg	0.04
Particulate Matter	kg	1.71

Greenhouse Gas

The direct greenhouse gas emissions of the Group mainly come from combustion of fuels by vehicles within the Group, while indirect greenhouse gas emissions mainly come from purchased electricity, paper disposal and aircraft travelled on by employees for business trips.

MAJOR TYPES OF EMISSIONS	UNIT	VOLUME
Scope 1		
Fuel combustion of vehicles:		
Carbon Dioxide (CO_2)	Tonnes of carbon dioxide equivalent	6.47
Methane (CH_4)	Tonnes of carbon dioxide equivalent	0.01
Nitrogen Oxides (N_2O)	Tonnes of carbon dioxide equivalent	0.94
Total emissions from fuel combustion by vehicles	Tonnes of carbon dioxide equivalent	7.42
Scope 2		
Electricity	Tonnes of carbon dioxide equivalent	640.53[(1)]
Scope 3		
Waste paper	Tonnes of carbon dioxide equivalent	6.99
Business trips by employees	Tonnes of carbon dioxide equivalent	129.46
Total emissions	Tonnes of carbon dioxide equivalent	784.40
Total emissions intensity	Tonnes of carbon dioxide equivalent/ square metre[(2)]	0.15

Notes:

(1) The greenhouse gas emission factor of purchased electricity is based on the "Average CO_2 Emission Factors for Regional Power Grids in China in 2011 and 2012" issued by the National Development and Reform Commission.

(2) The total office area of the Group was 5,338.4 square metres.

Measures to mitigate emissions

In order to effectively reduce the emissions generated by the Group, the Group has adopted several measures for the management of vehicles, including but not limited to, reasonable use of vehicles, prohibition of private use and strict approval for long-distance travel arrangements to reduce unnecessary travel. The Group's vehicles are examined and maintained on a weekly basis to enhance fuel efficiency. Due to these measures, the Group has been maintaining a relatively low level of emissions, and such emission level does not pose significant environmental and social impacts.

Hazardous Wastes

Owing to the Group's business nature, the Group in its ordinary course of business does not produce material hazardous wastes.

Non-hazardous waste

The solid emissions of the Group mainly come from various types of recyclable and non-recyclable daily office waste, such as paper, office supplies and plastics, generated from the offices of the Group.

Details of the emissions data of the Group during the year ended 31 December 2019 were as follows:

TYPE OF WASTE	UNIT	VOLUME
Non-hazardous waste	Tonnes	21.77
Non-hazardous waste intensity	Tonnes/number of employees	0.03

Measures to reduce waste generation

The Group actively promotes Green Office practices, and adheres to the four "Rs" principle of environmental protection (Reduce, Reuse, Recycle, Replace) in its daily operation, aiming to minimise the generation of waste and maximise the efficient use of resources.

In terms of paper consumption, the Group promotes a paperless office, including but not limited to the following measures:

- Double-sided printing is set for printers by default; employees are required to use double-sided photocopying and reuse single-sided paper without confidential information for draft photocopying;
- Employees are encouraged to use online communication; and
- Waste paper recycling bins are set up to separate waste paper for recycling.

During the year ended 31 December 2019, the papers recycled by the Group amounted to approximately 178 kg.

Use of Resources

The Group's energy consumption mainly comes from purchased electricity. The water consumption of the Group's Shenzhen and Shanghai offices is charged as part of their property management fees. Accordingly, the Group's water consumption figure only took into consideration the water consumption of their Beijing office, which was charged separately, and did not include the data for its Shenzhen and Shanghai offices. For details of the energy efficiency policy and green practices adopted by the Group, please refer to the following section headed "Energy use efficiency" in this report.

Total energy consumption

TYPE OF ENERGY	UNIT	CONSUMPTION
Electricity		
Total electricity consumption	kWh	721,965.10
Total electricity consumption intensity	kWh/m^2	133.24
Water		
Total water consumption	m^3	600
Total water consumption intensity	m^3/m^2	1

Energy use efficiency

In terms of electricity consumption, the Group adopts low-consumption and recyclable energy-saving lights for office lighting to reduce its electricity consumption for lighting products and thus its carbon emissions. The Group has also posted notices on various power switches to encourage employees to switch off equipment and power when they leave the premises or when they are not using it. The temperature in the Group's offices is maintained at 24 degrees Celsius or above to reduce unnecessary energy use.

In terms of water consumption, the Group adopts various water-saving measures, such as cleaning staff regularly patrolling the toilets to prevent leakage of water taps. Reminders are posted in prominent places in toilets to remind employees to save water.

Due to the above measures, the Group has been maintaining a relatively low level of electricity and water consumptions, and such consumption level does not pose significant environmental and social impacts.

Suitable water sources

The Group has not encountered any difficulties in sourcing suitable water sources, and each of its offices has a stable water supply which meets its daily operational needs.

Packaging materials

Owing to the Group's business nature, the Group in its ordinary course of business does not involve any material usage of packaging materials.

Environment and Natural Resources

The offices of the Group in their daily operations do not have significant impacts on environment or natural resources. The Group has always adhered to the principle of environment and natural resources protection in the course of its operations, and strives to avoid causing significant impacts on the environment or over-consumption of natural resources.

SOCIAL

Employment

The Group firmly believes that its employees are the most valuable assets of an enterprise and one of the most important factors for the sustainable development and success of the Group. The Group strictly complies with all employment-related laws and regulations, including but not limited to the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), the Labour Law of the PRC (《中華人民共和國勞動法》), the Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》), the Law on the Protection of Rights and Interests of Women (《婦女權益保障法》), Provisions of the State Council on Working Hours of Workers and Staff (《國務院關於職工工作時間的規定》), the Law on the Protection of Disabled Persons (《殘疾人保障法》) and the Social Insurance Law of the PRC (《社會保險法》).

The Group has adopted the Employee Handbook (員工手冊), the Management System of Employee Recruitment, Departure and Re-designation (員工入職離調管理制度), and the Employee Development Management Measures (員工發展管理辦法) to regulate the workflow of recruiting, induction and training, employee transfers, dismissals and promotions, in order to standardise its workflow and improve its efficiency. The Group is committed to creating a corporate culture centred on the "battleman (戰功者)", providing the "battleman" with an innovative working environment, and providing business-oriented and market-competitive remuneration and incentive systems. It is also committed to building diverse and non-discriminatory inclusive working environments, strictly forbids any harassment and inappropriate behaviour, provides a promotion and development system for career ranks, and creates a fair, equal, respectful and open corporate development environment, so that the value of the Group's talents can be reflected on, assessed and rewarded fairly. The Group ensures that employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status or family status during recruitment and promotion.

The Group recruits talented candidates with good attributes based on its business planning and needs, and uses structured interview tools, such as written tests and background checks as far as possible, to support decision-making for positions at junior manager level or above, so as to maintain the fairness of recruitment and avoid the subjective personal judgement of interviewers on the strengths and weaknesses of the candidates. The Group also attaches great importance to the career management of employees, and accordingly has set up two development paths for employees, namely the professional and management paths. In the middle and the end of each year, the Group makes available job promotion openings to encourage its employees to fully realise their career development potential.

The Group invests resources to attract, retain and motivate talents. By providing employees with competitive remuneration packages and benefits, the Group hopes to reach in the market and engage high-calibre talents and motivate its existing employees. The Group regularly reviews the remuneration package of its employees and makes necessary adjustments to conform to market expectations. The Group's employees work 8 hours per day, 40 hours per week on average and at least 1 day off per week. In addition to basic salary, five statutory social insurances and one housing fund, as well as basic statutory festive holidays and general holidays, the Group's employees are also entitled to welfare leave and additional welfare allowances, including but not limited to:

- meal supplements and afternoon tea;
- snack store selling at half-price;
- birthday gifts;
- festive gifts;
- red packets for Lunar New Year;
- fitness programme; and
- annual health check.

In order to enhance team cohesion and create a harmonious working atmosphere, the Group regularly organises various holiday activities and group gatherings, such as birthday parties, sports days, International Women's Day, Children's Day and overseas tours.

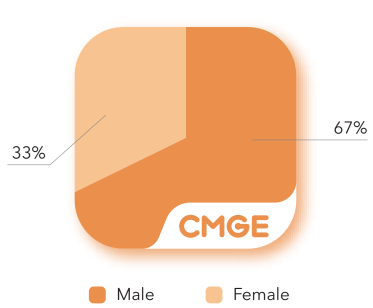
The Group was awarded the honour of the "2019 Best Employer Enterprise in Guangdong Province (2019廣東省最佳僱主企業)" by Enterprise Association of Guangdong (廣東省企業聯合會) and Entrepreneur Association of Guangdong (廣東省企業家協會), as the Group is recognised as a prominent role model for its employment, remuneration and benefits, its training for growth, its workplace culture and caring environment, and its brand building and steady development.

Total number and classification of employees

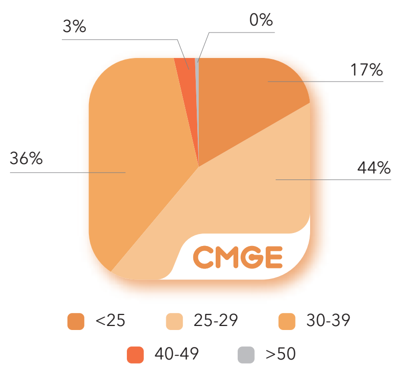
As at 31 December 2019, the total number of employees of the Group was 825, among which, 813 were located in the Group's Shenzhen, Shanghai and Beijing offices. The table below sets forth the details of the Group's employees in its Shenzhen, Shanghai and Beijing offices:

TOTAL NUMBER OF EMPLOYEES IN THE PRC	
Total number of employees	813
Gender distribution of employee	
Female	268
Male	545
Age Profile	
< 25	137
25-29	358
30-39	292
40-49	23
> 50	3
Number of employees at different levels	
Managerial staff	11
Middle level staff	68
Junior staff	734
Number of employees by geographical area	
Shenzhen	296
Beijing	443
Shanghai	74

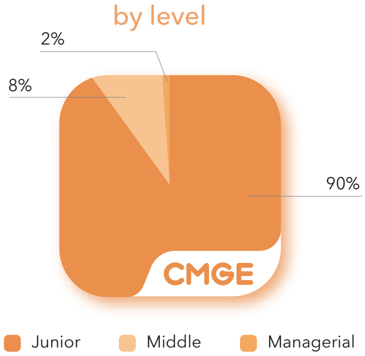
Distribution by gender



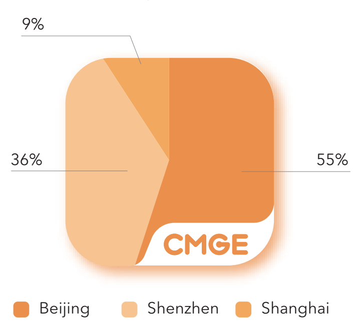
Distribution by age



Number of employee by level



Number of employee by geographical area

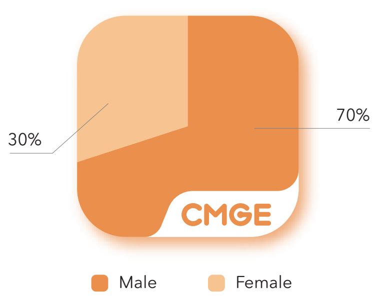


Employee turnover

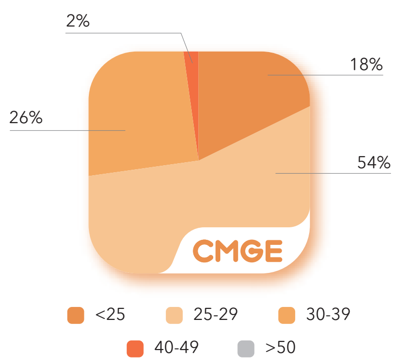
Details of the employee turnover rate of the Group as at 31 December 2019 were as follows:

TOTAL EMPLOYEE TURNOVER		
	Number of employees	% of total number of employees
Total turnover	221	27%
Distribution by gender		
	Number of employees	% of total turnover
Female	67	30%
Male	154	70%
Distribution by age		
	Number of employees	% of total turnover
< 25	39	18%
25-29	120	54%
30-39	57	26%
40-49	5	2%
> 50	0	0%
Number of employee turnover by geographical area		
	Number of employees	% of total turnover
Shenzhen	94	43%
Beijing	87	39%
Shanghai	40	18%

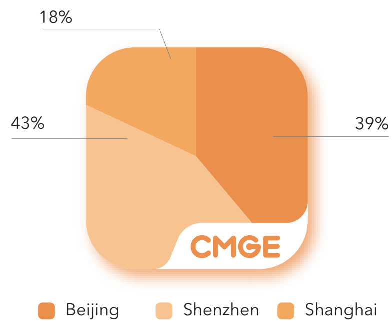
Distribution by gender



Distribution by age



Number of employee by geographical area



Health and Safety

The Group strictly complies with the Labour Law of the PRC (《中華人民共和國勞動法》), the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), the Law on the Prevention and Control of Occupational Diseases of the PRC (《中華人民共和國職業病防治法》), the Provisions on the Supervision and Administration of Occupational Health at Work Sites (《工作場所職業衛生監督管理規定》) and other applicable laws and regulations in the PRC. As for laws and regulations regarding occupational health standards and safe production in the PRC, the Group did not record any material non-compliance during the year ended 31 December 2019. Due to the nature of the Group's business, employees mainly work in the office and the chance of encountering work-related injuries is low. Therefore, the Group did not have any serious work-related injuries during the year ended 31 December 2019. The Group has established various health and safety measures in its workplace, including commercial medical and accident insurance, health check-ups for employees and safety guidelines for staff induction training to enhance their safety awareness.

In addition, to create and maintain a good, comfortable and healthy working environment, the Group has implemented a series of policies:

- to maintain accessibility of emergency exits in the Group's workplace;
- to provide adequate illumination and moderate temperature in the Group's workplace;
- to ensure no smoking is allowed in the Group's workplace; and
- to ensure safety inspections and fire drills are conducted regularly in the Group's workplace.

In addition to maintaining a safe and comfortable working environment, the Group understands the importance of work-life balance and has therefore implemented relevant measures to encourage employees to make good use of their leisure time. The Group organises various recreational activities for its employees, including holiday activities, weekend ball games and overseas trips, to build up a sense of belonging and team spirit. During the year ended 31 December 2019, the Group organised various health clubs, including fitness club, yoga club, basketball club, badminton club and football club, to provide employees with various sports programmes on a weekly basis, which are beneficial to their physical and mental health.

Development and Training

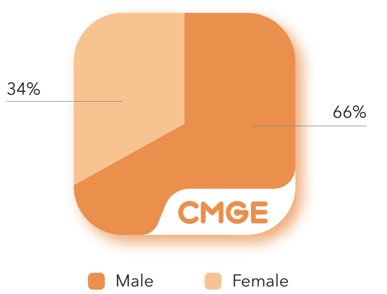
The Group values talent training and believes that employees will continue to grow along with the Group's business expansion, and provides targeted, systematic and forward-looking training for employees to ensure that they can quickly meet the needs of relevant positions and explore their potential to support the sustainable development of the Group. At the same time, the Group believes that skills and experience of employee are important factors for the long-term development of the Group. Therefore, in addition to the Employee Handbook (員工手冊) and the Employee Development Management Measures (員工發展管理辦法), the Group has also adopted the Training Management Measures (培訓管理辦法) to enhance employees' work performance through effective training, coaching and on-the-job development. In addition, the Group has sufficient training opportunities for employees of different departments and levels every year.

The training of the Group are mainly divided into internal training and external training. The Group provides necessary internal training for relevant operational positions based on the development needs of the Group, including internal sharing among departments, cross-department sharing and training. The Group also commissioned external professional training providers to provide professional training courses, including induction training, external training, and certification training involving enterprise qualification certification, to the Group's technical staff.

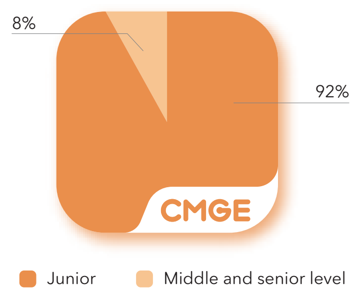
In addition, the Group provides different types of training for employees of different ranks, such as training for new employees recruited publicly, training for new employees recruited from schools and training for trainees. The Company provides position-based vocational training, including general ability training and professional ability training. The Company also provides leadership development training, including project manager training (professional direction), high potential mandatory training (management direction), cadre training and senior management training.

Staff training		
Total Number Trained	Number of employees 585	% of total number of employees 72%
Gender		
	Number of employees	% of total number of employees trained
Female	197	34%
Male	388	66%
Type of employee		
	Number of employees	% of total number of employees trained
Junior staff	540	92%
Middle and senior staff	45	8%
Training hours		
Total hours (hours)	1,973	
Average training hours completed (by gender)		
Female (hours)	230	
Male (hours)	165	
Average training hours completed (by type of employee)		
Junior staff (hours)	328	
Middle and senior management (hours)	167	

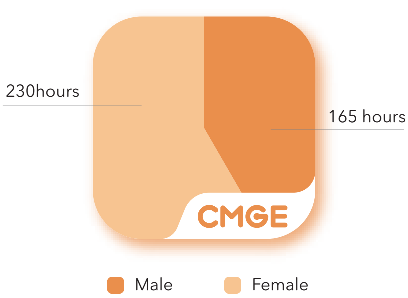
Gender



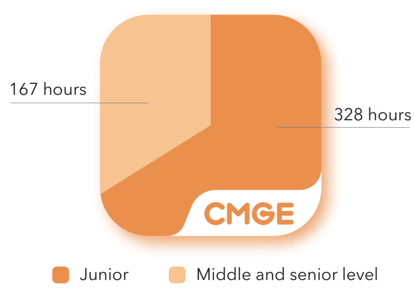
Type of Employee



Average training hours completed (by gender)



Average training hours completed (by type of employee)



Labour Standards

The Group resolutely resists and opposes any form of employment of child labour and forced labour, and strictly complies with the Labour Law of the PRC (《中華人民共和國勞動法》), the Law on the Protection of Minors of the PRC (《未成年人保護法》), the Provisions on the Prohibition of Using Child Labour of the PRC (《禁止使用童工規定》) and other applicable laws and regulations when recruiting employees so as to protect their legitimate rights and interests.

The human resources department of the Group strictly monitors the recruitment process, conducts background checks on its job applicants and verifies their credentials, and will not employ any candidates if they are found not suitable. Any use of false document will be deemed as fraudulent and any related signed labour contract will be deemed invalid.

During the year ended 31 December 2019, the Group did not have any child labour or forced labour, or receive any related complaints.

Supply Chain Management

The Group understands that supply chain management has an inseparable relationship with its sustainable development, and is therefore committed to establishing a long-term and harmonious cooperation relationship with its suppliers. The Group expects its suppliers to uphold the principles of integrity and pragmatism, and provide products and services in strict compliance with the requirements of applicable laws and regulations.

In order to standardise the procurement procedures of products and services and strengthen the monitoring and management of suppliers, the Group has adopted the Procurement Management System (採購管理制度) specifying the supplier selection and approval procedure through a preliminary review of standardised suppliers' information, screening, information database management and examination of suppliers to properly manage the environmental and social risks of the Group's supply chain.

When selecting potential suppliers, the supplier investigation team, comprising the requesting department, and members from the Group's finance, internal audit and administration departments, will conduct a preliminary investigation on the candidates from different channels to understand the scale of the suppliers, their professional qualifications, speed of response, service quality and reputation in the industry. Suppliers are included in the list of qualified suppliers only after passing the inspection by the supplier investigation team. Considering the potential environmental and social impacts of the supply chain, the Group takes into account environmental protection, occupational health and safety, labour rights and compliance with laws and regulations when selecting potential suppliers, with an aim to bringing positive impacts to the entire supply chain. For example, when inviting bids from travel suppliers, the Group requires the bidders to comply with the Bidding Law of the PRC (《中華人民共和國招標法》) and the Procurement Law of the PRC (《中華人民共和國採購法》) in the bidding process. The Group also requires the employment of the bidders' employees follows the Labour Law of the PRC (《中華人民共和國勞動法》) and the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) to protect employees' safety in accordance with the relevant law. The Group also requires its bidders to pay taxes according to law.

To ensure the quality of suppliers, the Group closely monitors the performance of suppliers and reviews approved suppliers on an annual basis. The performance of suppliers is assessed based on price, quality, delivery schedule and volume, service and other aspects. In addition, the Group will also continuously evaluate and monitor suppliers for their track record of handling social issues in the past. For suppliers who fail to meet the standards of the Group, the cooperation with these suppliers will be terminated when the Group rated them as "rectification is needed" for two consecutive times.

Product Responsibility

The Group believes that maintaining good game services is crucial to its sustainable development and is the key to its success. Therefore, the Group is committed to publishing high-quality games and having stringent game selection procedures to ensure better gaming experience for players. The Group continues to improve its technical services and player services and provides valuable technical support to game developers according to their specific needs. The Group continues to implement its long-term strategies, including improving service quality by analysing the data collected and enhancing player loyalty and satisfaction by improving the quality of the games based on the Group's understanding of player preferences. The Group will also upgrade the data collection system and big data platform to more accurately analyse player behaviour and more effectively monetise the value of games. The Group also enhanced its game development capabilities by investing more in research and development.

In addition, the Group has established a relatively comprehensive game development and publishing process, and will produce the display version of its games and conduct multiple rounds of testing before the games are officially approved for publishing to ensure the quality of the games and player experience.

The games of the Group have received tremendous support and numerous recognitions. On 7 December 2019, the Group obtained two awards, namely "Outstanding Enterprise in the Chinese Game Industry of 2019 (中國遊戲行業2019年度優秀企業)" and "Advanced Game Operation Unit in the Chinese Game Industry of 2019 (中國遊戲行業2019年度遊戲運營先進單位)", at the Chinese Game Industry Annual Conference and the 2019 Chinese Game Industry "Golden Finger" Award Presentation Ceremony (中國遊戲行業年會暨2019年度中國遊戲行業"金手指"獎頒獎盛典) hosted by China Culture & Entertainment Industry Association (中國文化娛樂行業協會). In addition, at the 2019 Guangdong Game Industry Annual Conference and the "Golden Diamond List" Release Ceremony (2019廣東遊戲產業年會暨"金鑽榜"發佈儀式) hosted by the Association of Game Industry of Guangdong (廣東省遊戲產業協會), the Group was awarded the title of "Most Influential Enterprise of 2019 (2019最具影響力企業)" as a global IP game operator, and the Group's IP-based game "*One Piece - The Road of the Strong* (航海王強者之路)" was awarded the title of "2019 Most Popular Online Game (2019最受歡迎網絡遊戲)". In addition, three of the Group's games, namely *Dragon Ball - Awakening* (龍珠覺醒), *One Piece - The Road of the Strong* (航海王強者之路) and *The World of Legend - Thunder Empire* (傳奇世界之雷霆霸業), won the "2019 Chinese Game Industry Outstanding Mobile Game (2019年度中國遊戲行業優秀手機遊戲)" awards.

In order to prevent myopia among children, the Chinese government has a myopia prevention program, which plans to regulate the number of new online games and limit the time spent by children on electronic devices. Accordingly, eight national government-level PRC regulatory authorities, including the National Radio and Television Administration (廣電總局), Administration of Press and Publication (國家新聞出版署) and the Ministry of Education (教育部), jointly issued the Notice of Issuance of the Implementation Plan for Integrated Prevention and Control Program of Myopia among Children and Teenagers (《綜合防疫兒童青少年近視實施方案》) on 30 August 2018. Hence, the Group takes active and effective measures to protect the physical and mental health of minors, such as launching and implementing the Parents' Guardian Project of Minors Online Games (網絡遊戲未成年人家長監護工程) by setting up special monitoring channels for parents on the homepage of games to guide the healthy participation of minors in online games. In addition, the Group jointly published the Declaration on the Protection of Minors in China's Game Industry (《中國遊戲行業未成年人守護宣言》) with other game manufacturers at the 2019 China Game Industry Annual Conference for the Protection of Minors Sub-forum (2019中國遊戲產業年會未成年人守護分論壇) and the 2019 Guangdong Game Industry Annual Conference and the "Gold Diamond List" Launch Ceremony (2019廣東遊戲產業年會暨"金鑽榜"發佈儀式), and launched the Minor Network Protection Initiative Ceremony (未成年網絡保護倡議儀式) to promote the provision of safe, healthy and orderly network services for minors.

The Group is also committed to comply with laws and regulations related to product responsibility such as the Provisions on the Administration of Online Publishing Services (《網絡出版服務管理規定》), the Measures for the Administration of Internet Information Services (《互聯網信息服務管理辦法》) and the Interim Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》), while ensuring that all games have obtained the Online Publishing Service License (《網絡出版服務許可證》). The advertisements released by the Group were also in line with the relevant regulatory requirements, including the Advertising Law of the PRC (《中華人民共和國廣告法》). During the year ended 31 December 2019, the Group did not receive any material complaints and compensation requests from audiences and customers due to deceptive, unfair or inappropriate contents, or poor service quality or recall for safety reasons.

Service Complaints and Responses

In order to establish a good relationship and a mutual trust with players, the Group has established a written customer complaint handling procedure, which is handled by the Group's customer service department, to deal with players' enquiries and complaints. The customer service representatives will handle customers' complaints and requests with patience. Every complaint will be recorded in a standardised customer complaint record, which includes work order number, game name, user source, label of the work order, staff code of customer service representative, processing time of work order, complaint content and handling results, to facilitate the customer service department to follow up and improve in the future, and also to serve as a source of information for the Group to improve its game quality.

Intellectual Property

Intellectual property rights are extremely important to the business of the Group, and the Group is committed to protecting intellectual property rights. The Group has established a copyright centre to monitor the risk of infringement of its intellectual property rights. Before entering into an IP licensing agreement, the copyright centre conducts independent background checks on the identity of the legal owner of the IP. For games developed based on IP licensed from game developers, the copyright centre also requires the game developers to provide authorisation letters issued by the IP owners to the Group. Before entering into a game licensing agreement, the copyright centre requires the relevant game developer to provide its software copyright registration certificate, and such game licensing agreement also contains an undertaking by the game developer as the legal owner of the game copyright. The Group has established the Measures for the Administration of Trademarks and Computer Software Copyright（商標及電腦軟體著作權管理辦法）to regulate the application process of its trademarks and copyrights. The Group has also included information such as application number, application date and duration of the software copyrights and trademarks of the Group in a Copyright List（著作權清單）.

In order to continuously monitor the abuse of the Group's IP rights by others, the business department of the Group regularly searches for the application of market and distribution platforms to determine whether the Group's games are being infringed. Once a game infringement is discovered, the business department collects and compiles evidences and submits them to the relevant application market or publishing platform to request for removal of the infringing games from its portal. If the application market or publishing platform fails to remove the infringing games within the prescribed period, the Group will issue a legal letter to them. The Group will also consider initiating legal proceedings against infringing application markets or distribution platforms and infringing game developers.

Privacy Protection Policy

The Group attaches great importance to the protection of personal data to safeguard business and personal privacy. To this end, the Group has formulated the Information Security Management System（資訊安全管理制度）to regulate the organisation, storage, confidentiality and use of files to reduce the risk of data leakage. Employees are required to keep the information and data necessary for their work properly and keep them confidential. Important information, electronic files and important data are backed up regularly to prevent data loss due to mechanical failure or accidental deletion. In addition, the Group has clearly stated in its Employee Handbook that employees must strictly keep the Group's information confidential, and must not disclose confidential information of the Group to other unrelated employees or external parties. In the event that the leakage of the Group's confidential information results in losses to the customers and the Group, the Group will impose penalties or pursue legal liabilities in accordance with the Group's internal stringent procedures to protect the interests of the Group and its customers. The Group strictly adheres to Network Security Law（《網絡安全法》）, and there were no incidents of non-compliance in relation to data privacy during the year ended 31 December 2019.

Improving Network Security Management

In order to reduce the Group's exposure to cyber-attacks, the Group has developed a series of network security management, including (i) prohibition of employees from browsing or logging on unknown illegal websites, browsing illegal information and sending or receiving emails related to the above contents, (ii) downloading and installing virus spreading and hacker programmes on the Internet or by disks, (iii) assessing to unauthorised computer systems to change system information and user data, and (iv) attacking other computers or servers of the Group in any form. All computer equipment must be installed with anti-virus software on a uniform basis, and no measures such as anti-virus software and personal firewalls are allowed to be installed in computers without the consent of the Group's technology centre.

Anti-corruption

The Group strictly complies with the relevant laws and regulations such as the Anti-Money Laundering Law（《反洗錢法》）, the Anti-Unfair Competition Law（《反不正當競爭法》）and the Criminal Law of the PRC（《刑法》）, and adheres to the fundamental standards of integrity and self-discipline. The Group's Employee Handbook clearly states the business conducts and professional ethics that employees should strictly follow, and prohibits any acts such as bribery, insider trading and fraud.

If any employee finds any violation, he/she can report to the head of the Group's internal audit department through the reporting mailbox or the reporting hotline provided by the Group. The department is responsible for investigating and collecting evidences and submitting the same to the Audit Committee. The head of the audit department will determine the corresponding penalties for the violations based on the nature, severity and evidences obtained.

During the year ended 31 December 2019, the Group was not aware of any violations of corruption, bribery, extortion, fraud or money laundering.

Social Responsibilities

The Group upholds the philosophy of "earnestly fulfilling social responsibilities and actively carrying out public welfare activities" and regards public welfare as an important part of its corporate culture. Due to the nature of the game industry, the Group focuses on the charity for the youth and gives back to the society with a grateful heart.

During the year ended 31 December 2019, the Group donated approximately RMB972,000 to charity activities for the youth and charity funds in Hong Kong, and spent a total of approximately 148 volunteer hours. The Group joined hands with China Population Welfare Foundation (中國人口福利基金會) and Lingshan Foundation (靈山基金會) to carry out a series of public welfare activities, including the "CMGE Dream Library (中手游築夢圖書館)". Five CMGE Dream Libraries have been completed and put into use.

The fourth and the fifth "CMGE Dream Library (中手游築夢圖書館)" were officially completed on 23 April 2019 and 9 September 2019, respectively, at the Qianjin Primary School (前進小學自由分校) in Chunwan Town, Yangchun City, Guangdong Province and the Dongbai School (東柏學校) in Jishan County, Yuncheng City, Shanxi Province. This is another two libraries planned after Chengping Primary School (承平小學) in Yunan County, Yunfu City, Guangdong Province, Shangquyang Primary School (上曲陽小學) in Zhengding County, Shijiazhuang City, Hebei Province and Zhonghe School (中和學校) in Meihekou City, Jilin Province. The completion of these two libraries marked that the Group has achieved more than half of its target of building at least 10 "CMGE Dream Libraries" across China.

In addition to a series of public welfare activities, volunteers from the Group's Shenzhen and Beijing offices also visited Tiantian Special Children Rehabilitation Centre (天天特殊兒童康復中心) in Longgang District, Shenzhen, and Chenguang Cerebral Palsy Rehabilitation Centre (晨光腦癱兒童康復中心) in Chaoyang District, Beijing, respectively, to carry out a warm public welfare activity to care for special needed children. At the same time, on the 99 Charity Day (99公益日), the Group carried out a donation activity for the STEAM book corner for Every Class Project (班班圖書角) through Tencent's charity platform, providing high-quality STEAM-element children's books and supporting practical materials for rural schools.

As a result of its outstanding performance in corporate social responsibility, the Group was awarded the Social Responsibility Award for Internet Corporate 2019 (2019年度互聯網企業社會責任獎) at the Chinese Charity Festival (中國公益節) jointly organised by the Syobserve.com (數央公益), Gongyi Daily (數央網) and many other media. The Group will continue to contribute to the future prosperity and growth of the youth, promote the established social welfare projects, and continue to explore more different social welfare actions.

To the directors of CMGE Technology Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CMGE Technology Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 91 to 176, 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 requirement 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 *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
The carrying value of goodwill amounted to RMB1,119 million as at 31 December 2019. The Group is required to perform the impairment test for goodwill annually. The impairment test is based on the recoverable amount of the respective cash generating units ("CGUs") to which the goodwill is allocated. Management performed the impairment test using the value-in-use calculation based on the discounted cash flow method. Management also involved external experts to perform impairment assessment on the respective CGUs. Assumptions such as discount rate and long-term growth rate were set up applying significant judgements and estimates. The Group's disclosures about impairment of goodwill are included in note 2.4, note 3 and note 15 to the financial statements.	Our procedures in relation to management's goodwill impairment test included: Assessed the competence, capabilities and objectivity of the Group's external experts; Involved our internal valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group and external experts, in particular, the discount rate and the long-term growth rate; and Assessed reasonableness of the forecasts used in the impairment test by comparing the forecasts with the historical performance of the respective CGUs and the business development plan. We also read and assessed the Group's disclosures of goodwill.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables	
At as 31 December 2019, the carrying value of trade receivables amounted to RMB811 million, for which RMB21 million loss allowance was recorded. Management applied judgement in assessing the expected credit losses ("ECLs"). Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for loss allowance. ECLs are also estimated by grouping the remaining receivables based on shared credit risk characteristics and ageing of billing and then collectively assessed for likelihood of recovery, taking into account the nature of customers and ageing category, and applying expected credit loss rates ("ECLs rates") to the respective gross carrying amounts of the receivables. The ECLs rates are determined based on historical credit loss experience and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. We focused on this area due to the magnitude of the trade receivables and the estimation and judgement involved in determining the expected credit losses allowance of the trade receivables. The Group's disclosures about loss allowance for trade receivables are included in note 2.4, note 3, and note 20 to the financial statements.	Our procedures in relation to management's ECLs assessment on trade receivables included: Reviewed and assessed the application of the Group's policy for calculating the ECLs; Evaluated techniques and methodology in the ECLs model against the requirements of HKFRS 9; and Assessed the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are adjusted based on current economic conditions and forward-looking information and assessing whether there was an indication of management bias when recognising loss allowances. We also read and assessed the relevant disclosures made in the financial statements.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of financial instruments	
The Group has financial instruments that have been measured at fair value where no market price has been available, and in these cases, fair value is determined using valuation models based on market data. These financial instruments are categorised as Level 2 in the fair value valuation hierarchy. The Group also has some financial instruments for which the fair value measurement has been determined using valuation models where the value is affected by input data that cannot be verified by external market data. These financial instruments are categorised as Level 3 in the fair value valuation hierarchy. The Group has financial assets categorised as Level 2 and Level 3 totalling RMB333 million and RMB170 million, respectively. Financial liabilities categorised as Level 2 and Level 3 totalling nil and RMB260 million, respectively. We focused on this area due to the high degree of judgment required in determining the respective fair values of Level 2 and Level 3 financial instruments which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation. The Group's disclosures about fair value measurement of financial instruments are included in note 2.4, note 3, note 19, note 24, note 30 and note 37 to the financial statements.	Our procedures in relation to the fair value measurement of financial instruments included: Tested the key controls, on a sample basis, in relation to the valuation process, including the adoption of applicable valuation methodology and the application of appropriate assumptions in different circumstances, by inspection of the evidence of management's review; Involved our internal valuation specialists to assess the appropriateness of valuation methodology and assumptions used; and Checked the accuracy of the estimates by conducting sample tests and performed our own independent valuation computation. We also read and assessed the relevant disclosures made in the financial statements.

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 requirement 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.

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 TJEN, Michael.

Ernst & Young
Certified Public Accountants

Hong Kong
26 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	3,036,301	1,596,204
Cost of sales		(1,953,103)	(1,063,734)
Gross profit		1,083,198	532,470
Other income and gains	5	95,404	123,674
Selling and distribution expenses		(230,321)	(148,054)
Administrative expenses		(577,451)	(147,672)
Other expenses		(20,551)	(7,948)
Finance costs	7	(15,072)	(10,053)
Share of profits and losses of:			
A joint venture		(2,116)	(4,257)
Associates		10,532	17,887
PROFIT BEFORE TAX	6	343,623	356,047
Income tax expense	10	(100,410)	(40,074)
PROFIT FOR THE YEAR		243,213	315,973
Attributable to:			
Owners of the parent		248,348	311,045
Non-controlling interests		(5,135)	4,928
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted			
– For profit for the year		RMB13.15 cents	RMB17.28 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	243,213	315,973
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(1,923)	2,479
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	(1,923)	2,479
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	(1,923)	2,479
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	241,290	318,452
Attributable to:		
Owners of the parent	246,425	313,524
Non-controlling interests	(5,135)	4,928
	241,290	318,452

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property and equipment	13	4,815	6,245
Right-of-use assets	14	34,138	21,095
Goodwill	15	1,118,617	1,118,617
Other intangible assets	16	154,973	117,545
Investment in a joint venture	17	2,008	4,124
Investments in associates	18	125,530	167,804
Financial assets at fair value through profit or loss	19	725,137	538,701
Deferred tax assets	26	8,175	10,651
Prepayments	21	453,972	68,381
Total non-current assets		2,627,365	2,053,163
CURRENT ASSETS			
Trade receivables	20	789,903	472,431
Prepayments, other receivables and other assets	21	384,211	332,648
Other current asset	21	209,286	–
Due from related parties	35	20,002	10,517
Pledged deposits	22	406,267	–
Cash and cash equivalents	22	771,090	144,445
Total current assets		2,580,759	960,041
CURRENT LIABILITIES			
Trade payables	23	169,756	111,230
Other payables and accruals	24	517,442	463,645
Interest-bearing bank borrowings	25	442,036	51,422
Tax payable		116,945	41,212
Due to related parties	35	20,800	71,277
Lease liabilities	14	16,633	16,424
Total current liabilities		1,283,612	755,210

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NET CURRENT ASSETS		1,297,147	204,831
TOTAL ASSETS LESS CURRENT LIABILITIES		3,924,512	2,257,994
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	32,422	30,081
Payable for business combination	24	–	92,324
Contingent consideration for business combination	24	163,414	268,189
Lease liabilities	14	17,062	4,671
Total non-current liabilities		212,898	395,265
Net assets		3,711,614	1,862,729
EQUITY			
Equity attributable to owners of the parent			
Issued capital	27	1,641	–
Reserves	29	3,602,437	1,750,058
		3,604,078	1,750,058
Non-controlling interests		107,536	112,671
Total equity		3,711,614	1,862,729

Director:
Mr. XIAO Jian

Director:
Mr. SIN Hendrick

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent								
	Share capital RMB'000 (Note 27)	Capital reserve RMB'000 (Note 29)	Statutory surplus reserve RMB'000 (Note 29)	Share incentive reserve RMB'000 (Note 29)	Exchange fluctuation reserve RMB'000 (Note 29)	Retained Profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 1 January 2018	–	749,506	13,102	316,321	(3,685)	(167,591)	907,653	–	907,653
Profit for the year	–	–	–	–	–	315,973	315,973	–	315,973
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	2,479	–	2,479	–	2,479
Total comprehensive income for the year	–	–	–	–	2,479	315,973	318,452	–	318,452
Acquisition of subsidiaries under common control	–	(40,100)	–	–	–	–	(40,100)	–	(40,100)
Contribution from the shareholders	–	564,053	–	–	–	–	564,053	–	564,053
Transfer from retained profits	–	–	2,364	–	–	(2,364)	–	–	–
Acquisition of a subsidiary which previously was a joint venture (note 30)	–	–	–	–	–	–	–	112,671	112,671
At 31 December 2018	–	1,273,459*	15,466*	316,321*	(1,206)*	146,018*	1,750,058	112,671	1,862,729

	Attributable to owners of the parent								
	Share capital RMB'000 (Note 27)	Capital reserve RMB'000 (Note 29)	Statutory surplus reserve RMB'000 (Note 29)	Share incentive reserve RMB'000 (Note 29)	Exchange fluctuation reserve RMB'000 (Note 29)	Retained Profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 31 December 2018	–	1,273,459*	15,466*	316,321*	(1,206)*	146,018*	1,750,058	112,671	1,862,729
Profit for the year	–	–	–	–	–	248,348	248,348	(5,135)	243,213
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	(1,923)	–	(1,923)	–	(1,923)
Total comprehensive income for the year	–	–	–	–	(1,923)	248,348	246,425	(5,135)	241,290
Issue of shares for the Initial Public Offering ("IPO")	1,641	1,348,899	–	–	–	–	1,350,540	–	1,350,540
Share issue expenses	–	(77,988)	–	–	–	–	(77,988)	–	(77,988)
Share-based compensation (note 28)	–	–	–	335,043	–	–	335,043	–	335,043
Transfer from retained profits	–	–	2,572	–	–	(2,572)	–	–	–
At 31 December 2019	1,641	2,544,370*	18,038*	651,364*	(3,129)*	391,794*	3,604,078	107,536	3,711,614

* These reserve accounts comprise the consolidated reserves of RMB3,602,437,000 (2018: RMB1,750,058,000) in the consolidated statement 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:		343,623	356,047
Adjustments for:			
Finance costs	7	15,072	10,053
Share of profits and losses of a joint venture and associates		(8,416)	(13,630)
Gain on deemed disposal of an investment in an associate	5	(38,443)	–
Losses/(gains) on disposal of financial assets at fair value through profit or loss	6	384	(2,308)
Dividend income from financial assets at fair value through profit or loss	5	(12,588)	–
Fair value gains on financial assets at fair value through profit or loss	5	(12,772)	(86,055)
Fair value adjustment of contingent consideration	6	1,490	(17,498)
Remeasurement loss of a previously-held investment in a joint venture	6	–	7,679
Equity-settled share-based expense	28	328,088	–
Impairment of trade receivables	6	14,626	5,177
(Reversal)/Write-off of prepayments	6	(696)	4,733
Loss on disposal of items of property and equipment	6	544	300
Gain on disposal of items of other intangible assets	5	(3,062)	–
Depreciation of property and equipment	6	3,989	2,653
Depreciation of right-of-use assets	6	18,154	15,326
Amortisation of other intangible assets	6	51,525	32,956
Impairment of other intangible assets	6&16	4,192	–
Increase in trade receivables		(332,098)	(175,787)
Increase in prepayments, other receivables and other assets		(133,681)	(114,902)
Increase in amounts due from related parties		(9,485)	(4,420)
Increase in trade payables		58,526	10,020
Increase in other payables and accruals		94,839	23,824
(Decrease)/increase in amounts due to related parties		(50,477)	16,428
Cash generated from operations		333,334	70,596
Income tax paid		(22,936)	(10,965)
Net cash flows from operating activities		310,398	59,631

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from an associate		12,000	–
Dividends received from financial assets at fair value through profit or loss		12,588	–
Purchases of items of property and equipment	13	(3,163)	(1,279)
Proceeds from disposal of items of property and equipment		67	–
Additions to other intangible assets		(241,323)	(42,536)
Proceeds from disposal of items of other intangible assets		33,035	–
Acquisition of subsidiaries	30	(220,980)	(63,483)
Acquisition of subsidiaries under common control		–	(40,100)
Purchase of an investment in a joint venture		–	(6,800)
Purchases of investments in associates		(20,000)	(76,414)
Purchases of financial assets at fair value through profit or loss		(183,139)	(280,616)
Payments for acquisition of an angel investments fund	21	(163,000)	–
Deposit in a financial institution for assets management	21	(209,286)	–
Disposal of financial assets at fair value through profit or loss		70,524	82,865
Increase in pledged time deposits	22	(406,267)	–
Net cash flows used in investing activities		(1,318,944)	(428,363)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,350,540	–
Share issue expenses		(77,988)	–
New bank loans		490,611	69,577
Repayment of bank loans		(99,997)	(30,000)
Dividends paid		–	(20,876)
Principal portion of lease payment		(17,924)	(15,326)
Interest paid		(10,647)	(1,459)
Contribution from the shareholders		–	262,972
Net cash flows from financing activities		1,634,595	264,888
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		626,049	(103,844)
Cash and cash equivalents at beginning of year		144,445	245,762
Effect of foreign exchange rate changes, net		596	2,527
CASH AND CASH EQUIVALENTS AT END OF YEAR		771,090	144,445

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 20 March 2018 as an exempted company with limited liability under the Companies Law, Chapter 22 of the Cayman Islands. The registered address of the office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in mobile game publishing and game development in the Mainland China, Hong Kong, Taiwan and Korea, and investment business in the Mainland China.

Information about subsidiaries

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

Name	Date and place of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chengdu Zhuoxing Technology Company Limited (成都卓星科技有限公司) ("Chengdu Zhuoxing")*^	24 June 2013 PRC/Mainland China	RMB10,000,000	–	100	Mobile game publishing
Shenzhen Zhongshouyou Internet Technology Company Limited (深圳市中手游網絡科技有限公司) ("Shenzhen Zhongshouyou")*^	10 July 2015 PRC/Mainland China	RMB10,000,000	–	100	Mobile game publishing
Shenzhen Douyue Internet Technology Company Limited (深圳市豆悦網絡科技有限公司) ("Shenzhen Douyue")*^	21 November 2014 PRC/Mainland China	RMB10,000,000	–	100	Mobile game publishing
Shenzhen Shengli Huyu Internet Technology Company Limited (深圳市勝利互娛網絡科技有限公司)*	1 July 2015 PRC/Mainland China	RMB15,000,000	–	100	Mobile game publishing
Tibet Jichuang Internet Technology Co., Ltd. (西藏極創網絡科技有限公司)*^	24 March 2016 PRC/Mainland China	RMB30,000,000	–	100	Investment holding
China Mobile Games and Entertainment Group (HK) Limited	11 October 2012 Hong Kong	HK$100	–	100	Mobile game publishing
CMGE International Limited	3 December 2013 British Virgin Islands	US$1	–	100	Investment holding
Parkinson Enterprises Limited	28 October 2013 Hong Kong	HK$1	–	100	Mobile game publishing
CMGE Korea Corporation	28 February 2014 Korea	KRW274,456,000	–	100	Mobile game publishing
Majesty Enterprises Limited (Hong Kong)	22 November 2013 Hong Kong	HK$1	–	100	Mobile game publishing
SuperNova Overseas Limited (Hong Kong)	31 July 2014 Hong Kong	HK$1	–	100	Mobile game publishing
Blooming City Holding Limited (Republic of Seychelles)	8 January 2015 Republic of Seychelles	US$1	–	100	Mobile game publishing
CMGE Group Limited	23 October 2017 Hong Kong	HK$1	–	100	Investment holding
CMGE Group Limited	21 December 2017 British Virgin Islands	US$1	–	100	Investment holding
Shengyue Software (Shenzhen) Company Limited (盛悦軟件 (深圳) 有限公司)**^	5 March 2018 PRC/Mainland China	HK$150,000,000	–	100	Investment holding
Tianhu Software Technology (Shenzhen) Company Limited (天互軟件科技 (深圳) 有限公司)**^	7 March 2018 PRC/Mainland China	HK$150,000,000	–	100	Investment holding
Rocket Parade Investment Limited	21 March 2018 British Virgin Islands	US$0.01	100	–	Investment holding

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Name	Date and place of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Beijing Wenmai Hudong Technology Company Limited (北京文脈互動科技有限公司) ("Wenmai Hudong")*^	12 December 2014 PRC/Mainland China	RMB1,000,000	–	100	Game development
Horgos Zhongsheng Huyu Entertainment Technology Company Limited (霍爾果斯鐘聲互娛科技有限公司) ("Zhongsheng Huyu")*^	21 June 2016 PRC/Mainland China	RMB1,000,000	–	100	Game development
Softstar Technology (Beijing) Company Limited (軟星科技(北京)有限公司) ("Beijing Softstar")*^	19 September 2000 PRC/Mainland China	RMB16,873,388	51	–	Game development
Softstar Technology (Shanghai) Company Limited (軟星科技(上海)有限公司) ("Shanghai Softstar")*^	14 June 2001 PRC/Mainland China	RMB35,375,625	–	51	Game development
Shanghai Wenmai Technology Company Limited (上海聞脈科技有限公司)*^	3 August 2018 PRC/Mainland China	RMB1,000,000	–	100	Game development
Beijing Zhongsheng Huyu Entertainment Technology Company Limited (北京鐘聲互娛科技有限公司)*^	1 August 2019 PRC/Mainland China	RMB1,000,000	–	100	Game development

* These subsidiaries are registered as limited liability companies under PRC law.

** These subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

^ The English names of these subsidiaries registered in Mainland China represent the translated names of these companies as no English names have been registered.

Wenmai Hudong and Zhongsheng Huyu were acquired by the Group in May 2018. Beijing Softstar and Shanghai Softstar were acquired by the Group in August 2018. Details in relation to the acquisitions are set out in note 30 to the financial statements. The financial results of these companies were included in the Group's consolidated financial statements since the date of acquisition.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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 requirement of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and contingent consideration for business combination which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Pursuant to the Accountants' Report of the Group in connection with the listing of the shares of the Company on the Stock Exchange, all HKFRSs effective for the accounting period commencing from 1 January 2019 set out below had been consistently applied by the Group in the preparation of the consolidated financial statements, which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
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

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 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 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 associates 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 associates 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 associates and a 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 associates or joint venture are eliminated to the extent of the Group's investments in the associates or joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint venture is included as part of the Group's investments in associates or a joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and a joint venture *(continued)*

Upon loss of significant influence over the associates or loss of joint control over the joint ventures, the Group measures and recognises any retained investments at their fair values. Any difference between the carrying amounts and the fair values of the retained investment and proceeds from disposal is recognised in profit or loss.

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

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combination and goodwill *(continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than contract assets, deferred tax 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 statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

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 statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property 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:

Electronic devices	33%
Motor vehicles	20%
Leasehold improvements	Shorter of estimated useful lives or 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 statement of profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Other intangible assets (other than goodwill)

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

Intellectual Property Licences ("IP Licences")

Under IP licensing arrangements entered into between the Group and the IP owners, the Group pays loyalty fees to the IP owners as the Group is entitled to develop, publish and operate mobile games based upon the IP. The Group then engages third-party game developers to develop the licensed IPs into mobile games. The Group recognises the IP loyalty fees as an intangible asset. These intangible assets are amortised on a straight-line basis over the shorter of the expected economic life and licence period, from 2 to 3 years. The amortisation is recorded in cost of sales (where the games are commercially launched) or general administrative expenses (where the games are not yet commercially launched).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other intangible assets (other than goodwill) *(continued)*

Content provider licences ("CP licences")

Under the exclusive game arrangements entered into between the Group and the game developers, the Group pays upfront loyalty fees to the game developers as the Group is entitled to an exclusive right to operate the developed games. The Group recognises the upfront loyalty fees as an intangible asset. These intangible assets are amortised on a straight-line basis over the expected economic life, from 3 to 5 years. The amortisation is recorded in cost of sales (where the games are commercially launched) or general and administrative expenses (where the games are not yet commercially launched).

Computer software

Acquired computer software is stated at historical cost less amortisation. Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and is amortised on a straight-line basis over the useful life of 5 years.

Copyrights

Under the buyout arrangements for copyrights entered into between the Group and the IP owners, the Group pays a sum of copyright fees to the IP owners as the Group is entitled to buy out the copyrights upon which the Group can further develop, publish and operate mobile games with an indefinite period. The Group recognises the copyrights brought out as an intangible asset. These intangible assets are initially recorded at cost and amortised on a straight-line basis over their expected economic lives of 3 to 10 years.

The Group recognises copyrights acquired through business combinations as intangible assets. These intangible assets are initially recognised and measured at estimated fair value. Copyrights acquired through business combinations are amortised using a straight-line method which reflects the estimated consumption patterns and expected economic lives.

The Group develops its estimation on the expected economic lives of the copyright based on a number of factors such as typical product life cycles, public information on estimation of useful lives of similar assets, technical, commercial or other types of obsolescence and legal expiry dates.

Trademarks

Trademarks are initially recognised and measured at costs incurred to register. The costs are amortised on the straight-line basis over their estimated useful lives of 5 years.

Domain names

Domain names are initially recognised and measured at costs incurred to acquire and bring to use them. The costs are amortised on a straight-line basis over the domain names' estimated useful lives.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other intangible assets (other than goodwill) *(continued)*

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the 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 its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding contract periods, commencing from the date when the products are put into commercial production.

Leases

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.

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.

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Group as a lessee (continued)

(b) Lease liabilities *(continued)*

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.

(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. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

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 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 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 through 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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Simplified approach

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

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, amounts due to related parties, interest-bearing loans and borrowings and lease liabilities.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

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 the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

- when the deferred tax liability arises from the initial recognition of 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.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

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

(a) Mobile game publishing

The Group is primarily engaged in providing services of publishing third-party developed mobile games to the various publishing channels including application stores and software websites.

Most of the mobile games are operated under a free-to-play basis whereby players can play the games free of charge and are charged for purchase of a virtual currency that can exchange for virtual items in the games. Most of the mobile games are developed and operated by the third-party game developers ("CPs"), and the Group is responsible for publishing the games to the players through third-party publishing channels. Game players pay for the virtual items through the publishing channels. Such payments are generally non-refundable and non-cancellable. The publishing channels are entitled to withhold and deduct prescribed fixed percentages of the gross proceeds collected from the players as their channel service fee, and remit the remaining amounts to the Group. The Group is entitled to withhold and deduct prescribed percentages of the proceeds collected from the publishing channels as its publishing service fee, and remit the remaining amounts to the CPs and intellectual property ("IPs") owners, if any IPs are involved.

Gross Versus Net Consideration

The Group evaluates agreements with the CPs, publishing channels and IPs (if any) in order to determine whether the Group acts as the principal or as an agent in the arrangement with each party, respectively. The Group identified the specified service to be provided to the customers and assessed whether it controls each specified service before that is transferred to the customers. The indicators that the Group controls the specified service include, but are not limited to, whether the Group (i) is primarily responsible for fulfilling the promise to provide the specified service; (ii) has inventory risk before the specified service has been transferred to a customer; (iii) has discretion in establishing prices for the specified services. The assessment is performed for all of the Group's mobile game publishing revenue.

With respect to the Group's game publishing arrangements entered into during the reporting period, the Group views the CPs as its customers and the Group provides game publishing services to CPs. The Group is responsible for identifying, contracting with and maintaining the relationships of the publishing channels and IPs (if any), and accordingly, the Group records the amount collected from publishing channels, net of the amounts shared by the CPs, as the revenue on a gross basis and commission fees paid to the publishing channels and IPs (if any) are included in cost of sales.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from contracts with customers (continued)

(a) Mobile game publishing *(continued)*

Timing of revenue recognition

The Group's publishing services are provided over the whole publishing periods, and the publishing revenue is recognised when the services are provided and the revenue amounts are determinable.

(b) Self-developed games

The Group is also engaged in developing online games including web-based and mobile games. The self-developed games are licensed to the Group or other publishers under various game distribution arrangements.

The online games are operated under a free-to-play basis whereby players can play the games free of charge and are charged for purchase of a virtual currency that can exchange for virtual items in the games. The gross payments from players are collected as revenue. The payment received to purchase of virtual items is non-refundable and the related contracts are non-cancellable.

The Group has determined that it is obligated to provide on-going services to the game players who purchased virtual items to gain an enhanced game-playing experience over the playing period of the paying players, and accordingly, the Group recognises the revenues ratably over the estimated average playing period of these paying players ("Player Relation Period"), starting from the point in time when virtual items are delivered to the players' accounts, and all other revenues recognition criteria are met.

The Group estimates the Player Relation Period and re-assesses such period semi-annually. If a new game is launched and only a limited period of paying players' data is available, then the Group considers other qualitative factors, such as the playing patterns for paying players for other games with similar characteristics.

Gross Versus Net Consideration

The Group considered itself as a principal in self-developed games as the Group takes primary responsibilities of game operation, providing customer services, hosting game servers, controlling games and service specifications and pricing. Accordingly, the revenue derived from self-developed games is recorded on a gross basis and the amounts withheld by the publishing channels and other publishers are recorded as cost of sales.

Timing of revenue recognition

Revenue from provision of outsourcing game development services is recognised over time if the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, or otherwise, at a point in time.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from contracts with customers (continued)

(c) Licensing of intellectual property

The Group also generates revenue from licensing intellectual property originated from self-owned PC games to third parties for certain periods. Third parties can further develop and launch pan-entertainment products based on the proprietary IPs. The revenue from licensing agreements is recognised over the licence period (for a right to access) or at the point in time when the customer can first use the licensed intellectual property (for a right to use). Sales-based royalties on licences of IPs is recognised only upon the later of when the sale or usage occurs or the satisfaction of the related performance obligation.

(d) 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 assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is 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).

Share-based payments

The Company operates a Pre-IPO restricted share unit 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 and non-employees is measured by reference to the fair value at the date at which they are granted.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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 reporting period 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 the statement of 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.

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.

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 employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The 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

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB. The Company's functional currency is the Hong Kong dollar. 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 the reporting period. 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 period, 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 period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the reporting period.

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 profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

For the purpose of the consolidated statement of cash flows, the cash flows of 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.

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

Chengdu Zhuoxing, Shenzhen Zhongshouyou and Shenzhen Douyue (collectively referred to as 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 in.

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 a 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 period.

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.

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 period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB1,118,617,000 (2018: RMB1,118,617,000). Further details are given in note 15 to the financial statements.

Provision for expected credit losses on trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. 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 product) 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 receivables is disclosed in note 20 to the financial statements.

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)*

Valuation of financial assets at fair value through profit or loss

Where fair values of financial assets cannot be derived directly from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of estimation is required in establishing fair values. The estimations include considerations of inputs such as liquidity risk, credit risk and volatility changes in assumptions about these factors could affect the reported fair value of financial instruments. Further details are disclosed in note 19 to the financial statements.

Fair value of NEEQ quoted equity investments

The National Equities Exchange and Quotations ("NEEQ") quoted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence, they are subject to uncertainty. The fair value of NEEQ quoted equity investments at 31 December 2019 was RMB72,869,000 (2018: RMB71,682,000). Further details are included in note 19 to the financial statements.

Estimates of the Player Relation Period in the Group's game development services

The Group recognises the revenues ratably over the estimated average Player Relation Period for self-developed games and card and board games and the Group acts as principal. The determination of the Player Relation Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Future paying player usage patterns and behaviour may differ from the historical usage patterns, and therefore, the estimated average Player Relation Period may change in the future. The Group will continue to monitor the estimated average Player Relation 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 Relation Period as a result of new information will be accounted for as a change in accounting estimates.

Fair value of contingent consideration

The contingent consideration arising from business combination was estimated using the discounted cash flow model and Monte Carlo simulation model. These models require the Group to make estimations about the expected future profits, discount rate and volatility, and hence, they are subject to uncertainty. Further details are included in note 30 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the mobile game publishing, game development and investment business.

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.

For the year ended 31 December 2019

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
Segment revenue (note 5)				
Sales to external customers	2,553,189	421,254	61,858	3,036,301
Intersegment sales	–	939,779	–	939,779
Elimination of intersegment sales	–	(939,779)	–	(939,779)
Total revenue from contracts with customers	2,553,189	421,254	61,858	3,036,301

For the year ended 31 December 2018

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
Segment revenue (note 5)				
Sales to external customers	1,400,454	177,946	17,804	1,596,204
Intersegment sales	–	68,112	–	68,112
Elimination of intersegment sales	–	(68,112)	–	(68,112)
Total revenue from contracts with customers	1,400,454	177,946	17,804	1,596,204

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
Mainland China	3,022,957	1,585,667
Other countries and areas	13,344	10,537
	3,036,301	1,596,204

The revenue information above is based on the locations of the game publishing, game development and licensing of intellectual property.

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
Mainland China	1,755,281	1,491,138
Other countries and areas	138,772	12,673
	1,894,053	1,503,811

The non-current assets information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

During the year ended 31 December 2018, revenues of approximately RMB392,823,000 and RMB201,040,000 were derived from two respective single external customer where revenue from each of them accounted for more than 10% of the total revenue.

During the year ended 31 December 2019, there was no revenue derived from a single external customer that accounted for more than 10% of total revenue.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
Type of goods or services				
Mobile game publishing services	2,553,189	–	–	2,553,189
Game development related services	–	421,254	–	421,254
Licensing of intellectual property	–	–	61,858	61,858
Total revenue from contracts with customers	2,553,189	421,254	61,858	3,036,301
Geographical markets				
Mainland China	2,545,883	421,254	55,820	3,022,957
Other countries and areas	7,306	–	6,038	13,344
Total revenue from contracts with customers	2,553,189	421,254	61,858	3,036,301
Timing of revenue recognition				
Services transferred over time	2,553,189	382,575	–	2,935,764
Services transferred at a point in time	–	38,679	61,858	100,537
Total revenue from contracts with customers	2,553,189	421,254	61,858	3,036,301

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(a) *Disaggregated revenue information (continued)*

For the year ended 31 December 2018

Segments	Game Publishing RMB'000	Game Development RMB'000	Licensing of Intellectual Property RMB'000	Total RMB'000
Type of goods or services				
Mobile game publishing services	1,400,454	–	–	1,400,454
Game development related services	–	177,946	–	177,946
Licensing of intellectual property	–	–	17,804	17,804
Total revenue from contracts with customers	1,400,454	177,946	17,804	1,596,204
Geographical markets				
Mainland China	1,389,917	177,946	17,804	1,585,667
Other countries and areas	10,537	–	–	10,537
Total revenue from contracts with customers	1,400,454	177,946	17,804	1,596,204
Timing of revenue recognition				
Services transferred over time	1,400,454	154,361	–	1,554,815
Services transferred at a point in time	–	23,585	17,804	41,389
Total revenue from contracts with customers	1,400,454	177,946	17,804	1,596,204

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 each reporting period and recognised from performance obligations satisfied in previous periods:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of year:		
Short-term advances received from publishing channels	10,762	18,010
Sales of game points in self-developed games	8,240	–
	19,002	18,010

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(b) Performance obligations

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

Publishing services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 to 90 days from the date of billing.

Game development related services

The performance obligation from the operation of self-developed games is satisfied over the estimated Player Relation Period. The performance obligation from game research and development services is satisfied over time if the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, otherwise at the point in time.

IP licensing services

The performance obligation is satisfied over the licence period (for a right to access) or at the point in time when the customer can first use the licensed intellectual property (for a right to use). Payment is generally due within 45 days from delivery.

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
Amounts expected to be recognised as revenue:		
Within one year	72,039	57,112
After one year	–	–

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)*

	Notes	2019 RMB'000	2018 RMB'000
Other income			
Bank interest income	6	6,001	1,228
Dividend income from financial assets at fair value through profit or loss		12,588	–
Government grants - related to income*		12,428	4,241
Foreign exchange differences, net		–	6,739
Others		10,110	5,605
		41,127	17,813
Gains			
Gains on disposal of financial assets at fair value through profit or loss		–	2,308
Gain on deemed disposal of an investment in an associate		38,443	–
Fair value gains on financial assets at fair value through profit or loss		12,772	86,055
Fair value adjustment of contingent consideration	30	–	17,498
Gain on disposal of items of other intangible assets		3,062	–
		54,277	105,861
		95,404	123,674

* 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/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Commissions charged by channels		1,841,842	985,714
Commissions charged by IPs		21,885	28,206
Game development cost		27,120	13,328
Promotion expenses		183,414	109,988
Employee benefit expense (excluding directors' and chief executives' remuneration (note 8)):			
Wages and salaries		153,109	73,488
Equity-settled share-based expense		74,152	–
Pension scheme contributions (defined contribution scheme)		16,639	12,493
		243,900	85,981
Depreciation of property and equipment	13	3,989	2,653
Depreciation of right-of-use assets	14	18,154	15,326
Amortisation of other intangible assets	16	51,525	32,956
Research and development costs		160,829	59,719
Lease payments not included in the measurement of lease liabilities	14	79	18
Foreign exchange differences, net		165	(6,739)
Impairment of trade receivables, net*	20	14,626	5,177
(Reversal)/Write-off of prepayments, net**		(696)	4,733
Impairment of other intangible assets***	16	4,192	–
Bank interest income	5	(6,001)	(1,228)
Loss on disposal of items of property and equipment	13	544	300
Remeasurement loss of a previously-held investment in a joint venture	30	–	7,679
Auditor's remuneration		3,000	200
Listing expenses		34,571	24,420
Losses/(gains) on disposal of financial assets at fair value through profit or loss		384	(2,308)
Gain on deemed disposal of an investment in an associate		(38,443)	–
Fair value adjustment of contingent consideration	30	1,490	(17,498)

* Impairment of trade receivables is included in other expenses in the consolidated statement of profit or loss.

** Write-off of prepayments is included in other expenses in the consolidated statement of profit or loss.

*** Impairment of other intangible assets is included in other expenses in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest expenses on:		
Bank borrowings	9,751	482
Payable for business combination	4,425	8,594
Lease liabilities	896	977
	15,072	10,053

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
Fees	175	–
Other emoluments:		
Salaries, allowances and benefits in kind	5,283	1,200
Equity-settled share-based expense	253,936	–
Pension scheme contributions	67	60
	259,461	1,260

During the year, certain directors were granted shares, in respect of their services to the Group, under the share incentive scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such granted shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2019 RMB'000	2018 RMB'000
Independent non-executive directors		
Mr. TANG Liang (唐亮)	–	–
Ms. NG Yi Kum (伍綺琴)	35	–
Mr. HO Orlando Yaukai (何猷啟)	26	–
	61	–

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors *(Continued)*

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

(b) Executive directors and non-executive directors

2019	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share-based expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:					
Mr. XIAO Jian (肖健)	44	2,422	122,044	51	124,561
Mr. Hendrick SIN (冼漢迪)	44	2,861	131,892	16	134,813
	88	5,283	253,936	67	259,374
Non-executive directors:					
Mr. MA Yuntao (馬雲濤)	–	–	–	–	–
Mr. TANG Yanwen (唐彥文)	26	–	–	–	26
	114	5,283	253,936	67	259,400

2018	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share-based expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:					
Mr. XIAO Jian (肖健)	–	406	–	45	451
Mr. Hendrick SIN (冼漢迪)	–	794	–	15	809
	–	1,200	–	60	1,260
Non-executive directors:					
Mr. MA Yuntao (馬雲濤)	–	–	–	–	–
Mr. TANG Yanwen (唐彥文)	–	–	–	–	–
	–	1,200	–	60	1,260

Mr. TANG Liang waived his own emolument of HK$30,000 for the year ended 31 December 2019. Except that, there was no other arrangement under which a director waived 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: one director), respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2018: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	2,832	2,931
Equity-settled share-based expense	19,161	–
Pension scheme contributions	120	115
	22,113	3,046

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

	2019	2018
Nil to HK$1,000,000	–	4
HK$1,000,001 to HK$7,000,000	–	–
HK$7,000,001 to HK$7,500,000	1	–
HK$7,500,001 to HK$8,000,000	–	–
HK$8,000,001 to HK$8,500,000	–	–
HK$8,500,001 to HK$9,000,000	1	–
HK$9,000,001 to HK$9,500,000	1	–

During the year, shares were granted to three non-director highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such granted shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

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.

Pursuant to the rules and regulations of the BVI and Cayman, the Group is not subject to any income tax in the BVI and Cayman.

Hong Kong profits tax has 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 countries in which the Group operates.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in Mainland China during the reporting period was 25% of their taxable profits.

Chengdu Zhuoxing was accredited as a "software enterprise" in 2014 under relevant PRC laws and regulations. Accordingly, Chengdu Zhuoxing was entitled to a preferential Corporate Income Tax ("CIT") rate of 12.5% for the year ended 31 December 2018. For the year ended 31 December 2019, Chengdu Zhuoxing was subject to CIT at the standard rate of 25%.

Shenzhen Douyue and Shenzhen Zhongshouyou were accredited as "software enterprises" in 2016 under relevant PRC laws and regulations. Accordingly, Shenzhen Douyue and Shenzhen Zhongshouyou were entitled to a preferential CIT rate of 12.5% for the years ended 31 December 2019 and 2018.

Wenmai Hudong was accredited as a high and new technology enterprise ("HNTE") since 2016 and the certificate is valid for three years. For the years ended 31 December 2019 and 2018, Wenmai Hudong was entitled to a tax rate of 15%. The HNTE certificates need to be renewed every three years so as to enable Wenmai Hudong to enjoy the reduced tax rate of 15%.

Beijing Softstar was accredited as an HNTE since 2009 and the certificate is valid for three years since its renewal in 2018. For the years ended 31 December 2019 and 2018, Beijing Softstar was entitled to a tax rate of 15%.

Zhongsheng Huyu was established in Horgos Development Zone of Xinjiang and was exempt from PRC Tax Law from the first year of operation which was 2016 for a five-year period according to the applicable regulations promulgated by the State Council and relevant authorities. The applicable tax rate for Zhongsheng Huyu was 0% for the years ended 31 December 2019 and 2018.

10. INCOME TAX *(continued)*

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

	2019 RMB'000	2018 RMB'000
Current Tax Expense		
HK	866	–
PRC	94,727	36,880
Total	95,593	36,880
Deferred Tax Expense		
HK	2,184	–
PRC	2,633	3,194
Total	4,817	3,194
Total tax charge for the year	100,410	40,074

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 rate, are as follows:

	2019		2018	
	RMB'000	%	RMB'000	%
Profit before tax	343,623		356,047	
Tax at the statutory tax rate	85,906	25	89,012	25
Effect of different applicable tax rates for specific jurisdictions or enacted by local authority	2,758	1	(48,450)	(14)
Profits and losses attributable to a joint venture and associates	(1,130)	(0)	(2,663)	(1)
Super deduction for research and development expenses	(10,365)	(3)	(5,341)	(2)
Expenses not deductible for tax	3,059	1	5,602	2
Utilisation of previously unrecognised tax losses	–	–	(4,555)	(1)
Tax losses not recognised	20,182	6	6,469	2
Tax charge at the Group's effective rate	100,410	29	40,074	11

The share of tax attributable to a joint venture and associates amounting to nil (2018: Nil) and RMB3,020,000 (2018: RMB1,523,000), respectively, is included in "Share of profits and losses of a joint venture and associates" in the consolidated statement of profit or loss.

10. INCOME TAX *(continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% and may be reduced to 5% if certain criteria could be met under the Double Taxation Arrangement (Hong Kong). 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 2019, no deferred tax (2018: Nil) 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, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB148,806,000 (2018: RMB86,064,000).

11. DIVIDENDS

At a meeting held by the board on 26 March 2020, the board proposed a final dividend in respect of the year ended 31 December 2019 of HK$0.0355 per ordinary share of the Company, totalling approximately HK$82,720,000 based on the latest number of ordinary shares of 2,330,150,000 shares of the Company in issue. 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 the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,889,295,068 (2018: 1,800,000,000) in issue during the year, as adjusted to reflect the rights issued during the year.

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

The calculations of basic and diluted earnings per share are based on:

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	248,348	311,045
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,889,295,068	1,800,000,000

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	6,733	311	16,758	23,802
Accumulated depreciation	(3,465)	(199)	(13,893)	(17,557)
Net carrying amount	3,268	112	2,865	6,245
At 1 January 2019, net of accumulated depreciation	3,268	112	2,865	6,245
Additions	3,153	–	10	3,163
Disposals (note 6)	(294)	–	(317)	(611)
Depreciation provided during the year (note 6)	(1,769)	(32)	(2,188)	(3,989)
Exchange realignment	5	–	2	7
At 31 December 2019, net of accumulated depreciation	4,363	80	372	4,815
At 31 December 2019:				
Cost	6,987	311	16,169	23,467
Accumulated depreciation	(2,624)	(231)	(15,797)	(18,652)
Net carrying amount	4,363	80	372	4,815

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	5,285	330	16,080	21,695
Accumulated depreciation	(4,433)	(143)	(11,806)	(16,382)
Net carrying amount	852	187	4,274	5,313
At 1 January 2018, net of accumulated depreciation	852	187	4,274	5,313
Additions	906	311	62	1,279
Acquisition of subsidiaries (note 30)	2,017	–	612	2,629
Disposals (note 6)	(163)	(137)	–	(300)
Depreciation provided during the year (note 6)	(318)	(248)	(2,087)	(2,653)
Exchange realignment	(26)	(1)	4	(23)
At 31 December 2018, net of accumulated depreciation	3,268	112	2,865	6,245
At 31 December 2018:				
Cost	6,733	311	16,758	23,802
Accumulated depreciation	(3,465)	(199)	(13,893)	(17,557)
Net carrying amount	3,268	112	2,865	6,245

14. LEASES

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are for terms ranging from one to three years.

The Group also leased certain office premises under short-term (i.e., within 12 months) lease arrangement. The Group has elected not to recognise right-of-use assets on these short-term lease contracts.

(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	2018 RMB'000
As at 1 January	21,095	18,768
Additions	31,141	2,953
Additions as a result of acquisition of subsidiaries (note 30)	–	14,700
Depreciation expense (note 6)	(18,154)	(15,326)
Exchange realignment	56	–
As at 31 December	34,138	21,095

14. LEASES *(continued)*

(b) Lease liabilities

The carrying amounts of the Group's lease liabilities and the movements during the year are as follows:

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	21,095	18,768
New leases	30,466	2,953
Additions as a result of acquisition of subsidiaries (note 30)	–	14,700
Accretion of interest recognised during the year (note 7)	896	977
Payments	(18,820)	(16,303)
Exchange realignment	58	–
Carrying amount at 31 December	33,695	21,095
Analysed into:		
Current portion	16,633	16,424
Non-current portion	17,062	4,671

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

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

	2019 RMB'000
Interest on lease liabilities	896
Depreciation charge of right-of-use assets	18,154
Expense relating to short-term leases	79
Total amount recognised in profit or loss	19,129

(d) The total cash outflow for leases are disclosed in note 31(c) to the financial statements.

15. GOODWILL

	Note	RMB'000
At 1 January 2018:		
Cost		324,842
Accumulated impairment		–
Net carrying amount		324,842
Cost at 1 January 2018, net of accumulated impairment		324,842
Acquisition of subsidiaries	30	793,775
Impairment during the year		–
At 31 December 2018		1,118,617
At 31 December 2018:		
Cost		1,118,617
Accumulated impairment		–
Net carrying amount		1,118,617
Cost at 1 January 2019, net of accumulated impairment		1,118,617
Impairment during the year		–
Cost and net carrying amount at 31 December 2019		1,118,617
At 31 December 2019:		
Cost		1,118,617
Accumulated impairment		–
Net carrying amount		1,118,617

Goodwill is allocated to the mobile game publishing cash-generating unit, game development of Wenmai Hudong cash-generating unit and game development of Beijing Softstar cash-generating unit (collectively of the three above, the "CGUs") for impairment testing. The recoverable amount of the CGUs have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The growth rate beyond the five-year period had been projected as 3.0%.

15. GOODWILL *(continued)*

The respective recoverable amount and the carrying value of the CGUs as at 31 December 2019 and 2018 are as follows:

Mobile game publishing CGU:

	2019 RMB'000	2018 RMB'000
Recoverable amount	2,410,000	1,570,000
Carrying value including allocated goodwill	562,829	424,888

Game development of Wenmai Hudong CGU:

	2019 RMB'000	2018 RMB'000
Recoverable amount	996,943	881,791
Carrying value including allocated goodwill	721,650	731,312

Game development of Beijing Softstar CGU:

	2019 RMB'000	2018 RMB'000
Recoverable amount	283,223	266,183
Carrying value including allocated goodwill	260,500	246,563

The pre-tax discount rates applied to the cash flow projections, the forecasted growth rates and gross margin used to extrapolate cash flow projections and terminal growth rates are follows:

Mobile game publishing CGU:

	2019	2018
Growth rates (during the five-year period)	3%-8%	3%-10%
Gross margin	31%	35%-36%
Pre-tax discount rate	16%	17%
Terminal growth rate	3%	3%

Game development of Wenmai Hudong CGU:

	2019	2018
Growth rates (during the five-year period)	3%-9%	3%-136%
Gross margin	17%	16%-18%
Pre-tax discount rate	20%	19%
Terminal growth rate	3%	3%

15. GOODWILL *(continued)*

Game development of Beijing Softstar CGU:

	2019	2018
Growth rates (during the five-year period) *	3%-653%	3%-1,001%
Gross margin	18%	17%-19%
Pre-tax discount rate	21%	21%
Terminal growth rate	3%	3%

Assumptions were used in the value-in-use calculation of the CGUs for 31 December 2019 and 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue growth rate – The revenue growth rate is based on the average growth achieved in the past years and the expected revenue from newly launched games.

* The expected growth rate in the first forecasted year as at 31 December 2019 and 2018 was 653% and 1,001%, respectively. The Group expected significant growth in the first year due to the expected revenue from new launched mobile games and the synergy arising from the acquisition. Revenue in the second to fifth years were expected to increase gradually and therefore the growth rate returned to a lower range.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the past years and the expectation for market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development and the discount rate are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

	IP licences RMB'000	CP licences RMB'000	Computer software RMB'000	Trademarks RMB'000	Copyrights RMB'000	Development Expenditure RMB'000	Total RMB'000
31 December 2019							
Cost at 1 January 2019, net of accumulated amortisation	8,292	5,416	737	5	80,046	23,049	117,545
Additions	42,452	39,601	689	–	13,907	26,476	123,125
Disposal	–	–	(28)	–	(29,945)	–	(29,973)
Amortisation provided during the year (note 6)	(12,714)	(12,143)	(424)	(3)	(26,241)	–	(51,525)
Impairment during the year (note 6)	–	(4,192)	–	–	–	–	(4,192)
Exchange realignment	–	(5)	(2)	–	–	–	(7)
At 31 December 2019	38,030	28,677	972	2	37,767	49,525	154,973
At 31 December 2019							
Cost	64,063	112,835	1,669	17	79,000	49,525	307,109
Accumulated amortisation	(26,033)	(79,966)	(697)	(15)	(41,233)	–	(147,944)
Impairment	–	(4,192)	–	–	–	–	(4,192)
Net carrying amount	38,030	28,677	972	2	37,767	49,525	154,973

	IP licences RMB'000	CP licences RMB'000	Computer software RMB'000	Trademarks RMB'000	Copyrights RMB'000	Development Expenditure RMB'000	Total RMB'000
31 December 2018							
Cost at 1 January 2018, net of accumulated amortisation	3,518	15,728	7	8	15,841	–	35,102
Acquisition of subsidiaries (note 30)	–	–	638	–	86,210	14,038	100,886
Additions	9,434	3,183	104	–	–	9,011	21,732
Disposal	–	–	–	–	(7,210)	–	(7,210)
Amortisation provided during the year (note 6)	(4,660)	(13,495)	(6)	–	(14,795)	–	(32,956)
Exchange realignment	–	–	(6)	(3)	–	–	(9)
At 31 December 2018	8,292	5,416	737	5	80,046	23,049	117,545
At 31 December 2018:							
Cost	21,611	73,154	1,009	17	95,038	23,049	213,878
Accumulated amortisation	(13,319)	(67,738)	(272)	(12)	(14,992)	–	(96,333)
Net carrying amount	8,292	5,416	737	5	80,046	23,049	117,545

17. INVESTMENT IN A JOINT VENTURE

	2019 RMB'000	2018 RMB'000
Share of net assets	2,008	4,124
Provision for impairment	–	–
	2,008	4,124

The Group's joint venture is as follows:

Name	Particulars of registered capital held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Shenzhen Boliang Technology Co., Ltd. (深圳博良科技有限公司)	RMB850,000 as registered capital	PRC/ Mainland China	60.00%	Mobile game development

The above investment is held through a wholly-owned subsidiary of the Company.

18. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	48,790	62,222
Goodwill on acquisition	76,740	105,582
	125,530	167,804
Provision for impairment	–	–
	125,530	167,804

The Group's trade payable and other payable balances with the associates are disclosed in note 35 to the financial statements.

18. INVESTMENTS IN ASSOCIATES *(continued)*

Particulars of the Group's associates are as follows:

Name	Particulars of registered capital held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Shanghai Fengguo Network Information (上海蜂果網絡科技有限公司)	RMB1,551,254 as registered capital	PRC/ Mainland China	43.47%	Mobile game development
Guangzhou Leiyu Information Technology Co., Ltd. (廣州市雷娛信息科技有限責任公司)	RMB2,500,000 as registered capital	PRC/ Mainland China	20.00%	Mobile game development
Shenzhen Haituo Shidai Technology Co., Ltd. (深圳海拓時代科技有限公司)*	RMB30,769,230 as registered capital	PRC/ Mainland China	25.00%	Mobile game development
Tianjin Fenzhi Huyu Technology Co., Ltd. (天津紛至互娛科技有限公司)	RMB3,125,000 as registered capital	PRC/ Mainland China	32.00%	Mobile game development
Shanghai Langkun Digital Technology Co., Ltd. (上海朗鵾數碼科技有限公司)	RMB12,764,706 as registered capital	PRC/ Mainland China	23.50%	Mobile game development
Beijing Qiwen Internet Technology Co., Ltd. (北京奇文網絡科技有限公司)	RMB5,000,000 as registered capital	PRC/ Mainland China	32.50%	IP licensing and mobile game development
Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership) (深圳市志成千里投資企業(有限合夥))	RMB101,500,000 as registered capital	PRC/ Mainland China	49.26%	Investment

* In December 2019, the Group disposed of a 5.5% percentage interest in Shenzhen Haituo Shidai Technology Co., Ltd. with a consideration of RMB11,000,000 and then the ownership percentage in Shenzhen Haituo Shidai Technology Co., Ltd. decreased to 19.5%. The investment in Shenzhen Haituo Shidai Technology Co., Ltd. is subsequently reclassified from an investment in an associate to a financial asset at fair value through profit or loss.

The Group's shareholdings in the associates all comprise equity shares through three wholly-owned subsidiaries of the Company.

Shanghai Fengguo Network Information and Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership), which are considered material associates of the Group, are strategic partners of the Group and are accounted for using the equity method.

18. INVESTMENTS IN ASSOCIATES *(continued)*

The following table illustrates the summarised financial information in respect of Shanghai Fengguo Network Information adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2019 RMB'000	2018 RMB'000
Current assets	43,300	48,559
Non-current assets, excluding goodwill	1,194	1,758
Current liabilities	(16,609)	(20,368)
Net assets	27,885	29,949
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	43.47%	43.47%
Group's share of net assets of the associate, excluding goodwill	8,816	13,019
Goodwill on acquisition (less cumulative impairment)	64,750	64,750
Carrying amount of the investment	73,566	77,769

	2019 RMB'000	2018 RMB'000
Revenue	103,524	97,753
Profit for the year	17,936	20,980
Total comprehensive income for the year	17,936	20,980
Dividend paid	(20,000)	-

The following table illustrates the summarised financial information in respect of Shenzhen Zhichengqianli Investment Enterprise (Limited Partnership) adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2019 RMB'000	2018 RMB'000
Current assets	1,267	2,026
Non-current assets, excluding goodwill	64,237	60,235
Current liabilities	(137)	(137)
Net assets	65,367	62,124
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	49.26%	49.26%
Group's share of net assets of the associate, excluding goodwill	32,200	30,602
Goodwill on acquisition (less cumulative impairment)	4,205	4,205
Carrying amount of the investment	36,405	34,807

18. INVESTMENTS IN ASSOCIATES *(continued)*

	2019 RMB'000	2018 RMB'000
Revenue	–	–
Profit/(loss) for the year	3,243	(391)
Total comprehensive income/(loss) for the year	3,243	(391)
Dividend received	–	-

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 RMB'000	2018 RMB'000
Share of the associates' (loss)/profit for the year	(13,057)	8,960
Share of the associates' total comprehensive (loss)/income	(13,057)	8,960
Aggregate carrying amount of the Group's investments in the associates	15,559	55,228

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Listed equity investments, at fair value	222,022	64,700
NEEQ quoted equity investment, at fair value	72,869	71,682
Unlisted equity investments, at fair value	414,512	342,497
Convertible loans, at fair value	15,734	59,822
	725,137	538,701

The above equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.

20. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	810,907	481,478
Allowance for expected credit losses	(21,004)	(9,047)
	789,903	472,431

Trade receivables mainly represent amounts receivable from third-party publishing channels. The Group normally allows credit terms of 30 to 90 days to established channels and extends credit terms up to 270 days for major channels. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

20. TRADE RECEIVABLES *(continued)*

An ageing analysis of the trade receivables as at the end of the reporting period, based on the billing date and net of the allowance for expected credit losses, is as follows:

	2019 RMB'000	2018 RMB'000
Trade receivables	810,907	481,478
Allowance for expected credit loss	(21,004)	(9,047)
Total trade receivables, net	789,903	472,431
Within 90 days	352,190	224,150
90 to 180 days	219,646	148,963
180 days to 1 year	181,553	85,603
1 year to 2 years	36,514	13,715
	789,903	472,431

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

	2019 RMB'000	2018 RMB'000
At beginning of year	9,047	4,426
Provision for expected credit losses (note 6)	14,626	5,177
Amount written off as uncollectible	(2,669)	(556)
At end of year	21,004	9,047

The Group applies the simplified approach to provide for expected credit losses under HKFRS 9, and the provision rates are based on days past due for groupings of various customer segments with similar loss patterns. For certain trade receivables for which the counterparty failed to make demanded repayment, the Group has made 100% provision ("default receivables"). Except for default receivables, the Group used a calculation which reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Given there were no significant changes in the historical and forecasts of future conditions, the expected loss rate remained substantially the same during the reporting period.

20. TRADE RECEIVABLES *(continued)*

Set out below is the information during the reporting period about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

	Amount RMB'000	Expected loss rate	Impairment RMB'000
Default receivables	3,960	100%	3,960
Other trade receivables aged:			
Current	580,165	0.5%	2,902
Past due less than 3 months	127,145	3%	3,814
Past due 3 to 6 months	54,424	5%	2,721
Past due 6 to 12 months	41,784	10%	4,178
Past due 1 to 2 years	3,429	100%	3,429
	810,907		21,004

As at 31 December 2018

	Amount RMB'000	Expected loss rate	Impairment RMB'000
Default receivables	4,146	100%	4,146
Other trade receivables aged:			
Current	418,574	0.5%	2,093
Past due less than 3 months	44,648	3%	1,340
Past due 3 to 6 months	3,461	5%	173
Past due 6 to 12 months	10,393	10%	1,039
Past due 1 to 2 years	256	100%	256
	481,478		9,047

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Non-current portion		
Prepayments*	453,972	68,381
Current portion		
Prepayments*	319,189	272,115
Deposits and other receivables	56,185	48,066
Prepaid listing expenses	–	6,484
Contract costs**	8,837	5,983
	384,211	332,648
Other current asset***	209,286	–
	1,047,469	401,029

* Prepayments as at 31 December 2019 and 2018 included RMB100,000,000 paid for the conditional share purchase of Angel Fund (Asia) Investments Limited ("Angel Fund"). The conditional share purchase agreement will expire in December 2020.

Prepayments as at 31 December 2019 included RMB163,000,000 paid for the capital contribution in accordance with the requirements set out in a partnership agreement. The fund had obtained all the related licences and approval documentations in February 2020.

** Contract costs relate to commissions charged by the platforms which meet contract acquisition cost criteria. They are capitalised as contract acquisition costs and amortised over the Player Relation Period, which is consistent with the pattern of recognition of the associated revenue. The Group had no impairment losses recognised on contract costs.

*** Other current asset as at 31 December 2019 included a deposit of RMB209,286,000 in a financial institution for assets management.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	2019 RMB'000	2018 RMB'000
Cash and bank balances		746,090	144,445
Time deposits		431,267	–
		1,177,357	144,445
Less: Pledged time deposits:			
Time deposits with original maturity of over three months		(306,267)	–
Pledged for interest-bearing bank borrowings	34	(100,000)	–
Cash and cash equivalents		771,090	144,445

At the end of the reporting period, most of the cash and bank balances of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits 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 reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 3 months	78,100	55,020
3 to 6 months	44,758	29,060
6 months to 1 year	28,748	15,384
1 year to 2 years	14,065	7,094
2 years to 3 years	1,977	3,756
over 3 years	2,108	916
Total	169,756	111,230

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

24. OTHER PAYABLES AND ACCRUALS AND CONTINGENT CONSIDERATION FOR BUSINESS COMBINATION

	31 December 2019 RMB'000	31 December 2018 RMB'000
Non-current portion		
Contingent consideration for business combination (note 30)	163,414	268,189
Payable for business combination (note 30)	–	92,324
Current portion		
Contingent consideration for business combination (note 30)	96,848	90,583
Payable for business combination (note 30)	196,848	220,000
Payable for the acquisition of an associate	–	20,000
Contract liabilities*	72,039	57,112
Salary and welfare payables	27,124	23,062
Other tax payables	40,939	20,756
Accruals	56,009	16,511
Other payables**	27,635	15,621
	517,442	463,645

* Contract liabilities consist of the unamortised revenue from sales of the self-development games and receipts in advances from publishing channels.

Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from publishing channels	56,024	48,599	18,010
Sales of game points in self-developed games	16,015	8,513	–
	72,039	57,112	18,010

The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in short-term advances received from publishing channels and sales of game points in self-developed games.

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

25. INTEREST-BEARING BANK BORROWINGS

31 December 2019

	31 December 2019		
	Effective interest rate per annum (%)	Maturity	RMB'000
Current			
Bank loans - secured	4.79-6.26	2020	104,200
Bank loans - unsecured	4.95-7.00	2020	337,836
			442,036

In 2019, the Group obtained bank loans of RMB490,611,000 and repaid the loans of RMB99,997,000. Certain of the Group's interest-bearing bank borrowings with a carrying amount of RMB95,200,000 as at 31 December 2019 was secured by the pledge of the Group's time deposits amounting to RMB100,000,000. Shenzhen Small & Medium Enterprises Credit Financing Guarantee Group Co., Ltd. provided a guarantee for the Group's bank loans amounting to RMB9,000,000 as at 31 December 2019.

31 December 2018

	31 December 2018		
	Effective interest rate per annum (%)	Maturity	RMB'000
Current			
Bank loans - secured	5.44-5.66	2019	7,254
Bank loans - unsecured	6.53-7.00	2019	44,168
			51,422

In March 2018, the Group obtained an unsecured bank loan of RMB20,000,000 and repaid the loan in June 2018. This loan is denominated in RMB and repayable in three months.

In 2018, the Group obtained bank loans of RMB51,422,000, of which RMB1,845,000 was obtained from the acquisition of Beijing Softstar (note 30). Softstar Entertainment Inc., the minority shareholder of a subsidiary, provided a guarantee for the Group's bank loans of RMB7,254,000 as at 31 December 2018.

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans:		
Within one year	442,036	51,422
	442,036	51,422

26. DEFERRED TAX

	2019 RMB'000	2018 RMB'000
Deferred tax assets	8,175	10,651
Deferred tax liabilities	32,422	30,081

The movements in deferred tax assets during the reporting period are as follows:

	Deferred Tax Assets				
	Impairment of trade receivables RMB'000	Write-off of prepayments RMB'000	Impairment of other intangible assets RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2018	767	5,386	–	–	6,153
Deferred tax credited to the consolidated statement of profit or loss during the year	1,261	623	–	2,614	4,498
At 31 December 2018	2,028	6,009	–	2,614	10,651
At 1 January 2019	2,028	6,009	–	2,614	10,651
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year	1,651	(2,561)	1,048	(2,614)	(2,476)
At 31 December 2019	3,679	3,448	1,048	–	8,175

26. DEFERRED TAX *(continued)*

The movements in deferred tax liabilities during the reporting period are as follows:

	Deferred Tax Liabilities		
	Revaluation of financial assets at fair value through profit or loss RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January 2018	2,639	–	2,639
Acquisition of subsidiaries (note 30)	–	19,750	19,750
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year	10,990	(3,298)	7,692
At 31 December 2018	13,629	16,452	30,081
At 1 January 2019	13,629	16,452	30,081
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year	9,351	(7,010)	2,341
At 31 December 2019	22,980	9,442	32,422

Deferred tax assets have not been recognised in respect of the following item:

	2019 RMB'000	2018 RMB'000
Tax losses	282,534	237,613

The tax losses are available in five years, in ten years and indefinitely for offsetting against future taxable profits arising from Mainland China, Taiwan and Hong Kong, respectively. Deferred tax assets have not been recognised in respect of the above item as it is not considered probable that taxable profits will be available against which the above item can be utilised.

27. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Issued and fully paid:		
2,330,150,000 (2018:139,157,814) ordinary shares	1,641	-

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

	Number of ordinary shares	Share capital RMB'000
At 1 January 2018	–	–
On incorporation (note a)	1	–
Share split (note b)	139,157,813	–
At 31 December 2018 and 1 January 2019	139,157,814	–
Capitalisation Issue (note c)	1,660,842,186	1,270
Issuance of ordinary shares upon listing (note d)	461,000,000	323
Over-allotment shares (note e)	69,150,000	48
At 31 December 2019	2,330,150,000	1,641

Notes:

(a) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 20 March 2018 with authorised share capital of US$50,000 divided into 500,000,000 shares of US$0.0001 each. On the date of incorporation, one share was allotted and issued at par, credited as fully paid by Ridgeview Well Investment Limited ("Ridgeview Well").

(b) On 28 August 2018, the shareholdings of the then shareholders of Ridgeview Well were flipped down to the Company by way of a distribution of specie by Ridgeview Well (which was holding one share in the Company at the time), pursuant to which the Company issued and allotted 139,157,814 ordinary shares to Ridgeview Well and Ridgeview Well made a pro rata distribution to its shareholders. 139,157,813 shares were conditional on the share premium account being credited with RMB98,000 as a result of the issue of new shares to the public in connection with the Company's IPO as detailed in (d) below.

(c) Pursuant to the written resolution passed on 20 September 2019, an aggregate of 1,660,842,186 shares of US$0.0001 each of the Company were allotted and issued, by way of capitalisation of the sum of US$166,084 (equivalent to approximately RMB1,172,000) from the share premium account ("Capitalisation Issue"). Such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's IPO as detailed in (d) below.

Together with the capitalisation of RMB98,000 described in (c), the total capitalisation arose from the issue of new shares to the public in connection with the Company's IPO as detailed in (d) is RMB1,270,000.

(d) On 31 October 2019, in connection with the Company's IPO, 461,000,000 new ordinary shares of the Company of USD0.00001 each were issued at a price of HK$2.83 per share.

(e) On 4 November 2019, the Company had fully exercised the over-allotment shares, and in connection with the Company's IPO, 69,150,000 new ordinary shares of the Company of USD0.0001 each were issued at a price of HK$2.83 per share.

28. SHARE-BASED COMPENSATION

On 30 October 2019, the Company granted 180,000,000 ordinary shares to certain employees of the Group to incentivise and reward the eligible persons for their contribution to the Group. For the 180,000,000 granted ordinary shares, 30% shall vest on the listing date, and 70% shall vest if the required performance targets are achieved. The Group recognised a share-based compensation expense of RMB328,088,000 calculated based on a fair value price of HK$2.83 per share during the year ended 31 December 2019.

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 page 95.

(a) Capital reserve

The capital reserve of the Group represents the difference between the aggregate of the paid-up share capital of the subsidiaries, the consideration paid by the Group for the business combination under common control and contribution from the shareholders.

(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 that in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, it can be used to offset accumulated losses or be capitalised as paid-up capital.

(c) Share incentive reserve

The share incentive reserve comprises the fair value of equity-settled share-based payment granted and exercised in 2015 and 2019.

(d) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in note 2.4 to the financial statements.

30. BUSINESS COMBINATION

(a) Wenmai Hudong

On 31 May 2018, the Group acquired a 100% interest in Wenmai Hudong from two independent third parties ("the Sellers"). Wenmai Hudong is engaged in mobile game development. The acquisition was made as part of the Group's strategy to expand its market share and influence in the mobile game industry.

The purchase consideration for the acquisition of Wenmai Hudong was in the form of cash, with RMB30,000,000 paid on 21 May 2018, RMB50,000,000 paid on 29 September 2018, RMB220,000,000 payable before 31 December 2018, RMB100,000,000 payable after two years of the acquisition date and a contingent consideration of RMB400,000,000 which is payable dependent on the amount of net profit of Wenmai Hudong during the three years subsequent to the acquisition. The fair value of contingent consideration recognised on the acquisition date was RMB376,270,000 which was determined using the discounted cash flow model and Monte Carlo simulation model and is within level 3 fair value measurement. The fair value change of contingent consideration from the acquisition date to 31 December 2018 was RMB17,498,000, which was recognised in profit or loss in 2018. The fair value loss of contingent consideration during the year ended 31 December 2019 amounted to RMB1,490,000.

On 7 March 2019, the Group signed a supplementary agreement with the Sellers, pursuant to which the payment of RMB220,000,000 which was previously due on 31 December 2018 was rescheduled to be RMB115,000,000 payable after 10 days of the supplementary agreement and RMB105,000,000 payable after 30 days of completion of the registration of share transfer. The Group paid RMB219,901,000 during the year ended 31 December 2019.

The fair values of the identifiable assets and liabilities of Wenmai Hudong as at the date of acquisition were as follows:

	Notes	Fair value recognised at acquisition Wenmai Hudong RMB'000
Property and equipment	13	1,126
Right-of-use assets	14	8,435
Other intangible assets	16	48,210
Cash and bank balances		5,109
Trade receivables		36,232
Prepayments, other receivables and other assets		25,872
Other payables and accruals		(44,344)
Lease liabilities	14	(8,435)
Deferred tax liabilities		(10,250)
Total identifiable net assets at fair value		61,955
Goodwill on acquisition	15	698,045
Fair value of consideration which will be satisfied by		
Cash		80,000
Payable for business combination		303,730
Contingent consideration		376,270
		760,000

30. BUSINESS COMBINATION *(continued)*

(a) Wenmai Hudong *(continued)*

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	Wenmai Hudong RMB'000
Cash consideration	(80,000)
Cash and bank balances acquired	5,109
Net outflow of cash and cash equivalents included in cash flows from investing activities	(74,891)

Since the acquisition, the Wenmai Hudong contributed RMB174,588,000 to the Group's revenue and RMB11,201,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB1,798,590,000 and RMB322,344,000, respectively.

(b) Beijing Softstar

On 30 May 2018, the Group acquired 51% equity interests in Beijing Softstar by a cash injection of RMB213,000,000 into Beijing Softstar. Beijing Softstar is engaged in mobile game development. The acquisition was made as part of the Group's strategy to expand its market share and influence in the mobile game industry.

According to the articles of association of Beijing Softstar, shareholders' resolution requires unanimous consent of a two-thirds majority or all shareholders. Thus, the Group does not have control over Beijing Softstar and Beijing Softstar was accounted for as a joint venture. Subsequently on 28 August 2018, the articles of association of Beijing Softstar were modified which resulted in the Group obtaining control over Beijing Softstar, which has become a subsidiary since then.

On 30 January 2019, the Company signed a supplementary agreement with Beijing Softstar, pursuant to which, the capital injection of RMB213,000,000 would be paid to Beijing Softstar on or before 31 March 2019. On 30 April 2019, the Company signed a supplementary agreement with Beijing Softstar, pursuant to which, the capital injection of RMB213,000,000 would be paid to Beijing Softstar on or before 31 October 2019. The capital injection has been fully settled in 2019.

The fair value of the investment in the joint venture on the acquisition date was RMB213,000,000, resulting in a remeasurement loss of RMB7,679,000 recognised in profit or loss in 2018 (note 6). The fair values of the identifiable assets and liabilities of Beijing Softstar as at the date of acquisition were as follows:

30. BUSINESS COMBINATION *(continued)*

(b) Beijing Softstar *(continued)*

	Notes	Fair value recognised at acquisition Beijing Softstar RMB'000
Property and equipment	13	1,503
Right-of-use assets	14	6,265
Other intangible assets	16	52,676
Cash and bank balances		11,408
Trade receivables		1,111
Prepayments, other receivables and other assets		220,600
Due from related parties		4,592
Interest-bearing bank borrowings	31(b)	(1,845)
Other payables and accruals		(49,525)
Due to related parties		(1,079)
Lease liabilities	14	(6,265)
Deferred tax liabilities		(9,500)
Total identifiable net assets at fair value		229,941
Non-controlling interests		(112,671)
Goodwill on acquisition	15	95,730
Fair value of consideration which will be satisfied by an investment in a joint venture		213,000
		213,000

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	Beijing Softstar RMB'000
Cash consideration	–
Cash and bank balances acquired	11,408
Net outflow of cash and cash equivalents included in cash flows from investing activities	11,408

Since the acquisition, the Beijing Softstar contributed RMB21,162,000 to the Group's revenue and RMB10,057,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB1,614,940,000 and RMB303,269,000, respectively.

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

In April 2018, CMGE Group Limited ("CMGE Group"), a fellow subsidiary of the Group, transferred the investment in CPC Fund to the Group for nil consideration. The fair value of the investment in CPC Fund amounting to RMB187,205,000 was recorded as contribution from the shareholders.

In April 2018, CMGE Group transferred the investment in Fontaine Capital Fund, L.P. ("Fontaine Fund") to the Group for nil consideration. The fair value of the investment in Fontaine Fund amounting to RMB24,629,000 was recorded as contribution from the shareholders.

In May 2018, the Group acquired 26% of the issued shares of Angel Fund from Angel (Partners) Investments Limited with the consideration of 1,270,963 issued shares of Ridgeview Well, the then sole shareholder of the Company. The fair value of the investment in Angel Fund at the acquisition date amounting to RMB66,058,000 was recorded as contribution from the shareholders.

In June 2018, the Group received two pre-IPO investments amounting to RMB262,972,000 from Shengqu Technology Korean Limited ("Shengqu Technology") and Big Achieve Cayman LP ("Big Achieve"), two independent third-party investors, by way of entering into a share purchase agreement between Ridgeview Well, the then sole shareholder of the Company, and each of them, pursuant to which 1,985,535 shares of Ridgeview Well were issued to Shengqu Technology and Big Achieve with an anticipation that the shareholdings would be flipped down to the Company. The pre-IPO investments amounting to RMB262,972,000 were recorded as contribution from the shareholders.

In 2018, unsettled liabilities amounting to RMB66,101,000 waived by the related parties, pursuant to the instruction note from the shareholders, were derecognised and recorded as contribution from the shareholder in the capital reserve.

Other than the above-mentioned transaction, there were no material non-cash investing and financing transactions during the year presented.

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS *(continued)*

(b) Changes in liabilities arising from financing activities

2019

	Bank loans RMB'000	Lease liabilities RMB'000
At 1 January 2019	51,422	21,095
Proceeds from loans and borrowings	490,611	–
Additions to lease liabilities	–	30,466
Accretion of interest expenses (note 7)	9,751	896
Repayment of interest expenses	(9,751)	(896)
Repayment of loans and borrowings	(99,997)	–
Principal elements of lease payments	–	(17,924)
Exchange realignment	–	58
At 31 December 2019	442,036	33,695

2018

	Bank loans RMB'000	Lease liabilities RMB'000
At 1 January 2018	10,000	18,768
Acquisition of subsidiaries (note 30)	1,845	14,700
Proceeds from loans and borrowings	69,577	–
Additions to lease liabilities	–	2,953
Accretion of interest expenses	482	977
Repayment of interest expenses	(482)	(977)
Repayment of loans and borrowings	(30,000)	–
Principal elements of lease payments	–	(15,326)
At 31 December 2018	51,422	21,095

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000	2018 RMB'000
Within operating activities	79	18
Within financing activities	17,924	15,326
	18,003	15,344

32. COMMITMENTS

The Group had the following capital commitments at the end of each reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Purchase of IP and games licenses	41,259	10,059

33. CONTINGENT LIABILITIES

In March 2019, two claimants filed a civil litigation before the Shanghai Intellectual Property Court, alleging that the Group's game, The Attack-Advanced Version (攻沙加強版), infringed their copyright and that by marketing the game, the two game publishers (both independent third parties) and Wenmai Hudong (the Group's subsidiary and the developer of the aforementioned game), had also engaged in unfair competition (the "First Litigation"). The claimants demanded damages of RMB10,000,000 and that the Group take the game offline. Wenmai Hudong developed the game before the Group acquired Wenmai Hudong from its shareholders (the "Sellers") pursuant to an equity transfer agreement dated 31 May 2018, as supplemented on 7 March 2019 (the "Wenmai ETA") for RMB800,000,000. Pursuant to the Wenmai ETA, (i) one of the Sellers, as an indemnitor, has agreed to indemnify the Group for any liabilities and losses which associated to a fact or event existed before acquisition of Wenmai Hudong, and (ii) the Group had paid RMB299,901,000 as of the 31 December 2019, and the remaining consideration of RMB500,099,000 is payable to the indemnitor by instalments with a price adjustment mechanism with reference to the profits achieved by Wenmai Hudong. As advised by the Group's PRC Legal Advisers, the Group are entitled to claim indemnity from the indemnitor pursuant to the Wenmai ETA if Wenmai Hudong incurs any loss associated with the First Litigation, and to adjust the consideration payable to the indemnitor if Wenmai Hudong fails to meet the target profit because of any loss incurred of the First Litigation. In the opinion of the directors, the First Litigation will not have a material impact on the financial statements of the Group.

In April 2019, two claimants filed a civil litigation before the Intermediate People's Court of Wuhan City, alleging that the game, the World of Legend-Thunder Empire (傳奇世界之雷霆霸業), infringed their copyright and that by marketing the game, the Group had engaged in unfair competition (the "Second Litigation"). The maximum exposures in respect of the Second Litigation consisted of taking the aforementioned game offline, paying damages in the maximum sum of RMB10,000,000, eliminating any negative impact by making a declaration on the Group's websites and reimbursing all litigation expenses incurred by the claimants. As the game was developed with the appropriate authorisation of Shengqu Information Technology (Shanghai) Company Limited, the owner of the underlying copyright, in the opinion of the directors, the Group has sufficient and valid legal grounds to defend the allegations in the Second Litigation, and that the likelihood of an unfavourable court ruling is low.

34. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's interest-bearing bank borrowings are included in note 25 to the financial statements.

35. RELATED PARTY TRANSACTIONS

(a) Name of related party

	Relationship with the Group
Softstar Entertainment Inc.	Minority Shareholder of a subsidiary and equity invested by the Group
Softstar International Inc.	Equity invested by the Group
Shanghai Fengguo Network Information	Associate
Guangzhou Leiyu Information Technology Co., Ltd.	Associate
Shanghai Langkun Digital Technology Co., Ltd.	Associate
Shenzhen Haituo Shidai Technology Co., Ltd.	Associate
Shenzhen Boliang Technology Co., Ltd.	Joint venture
Mr. Fan Yingjie	The key management of a subsidiary

In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material related party transactions during the reporting period:

(b) Transactions with related parties

	2019 RMB'000	2018 RMB'000
Publishing services provided to Shanghai Fengguo Network Information	68,591	63,476
Promotion services received from Shanghai Fengguo Network Information	20,287	–
Publishing services provided to Shenzhen Haituo Shidai Technology Co., Ltd.	297,477	154,271
Publishing services provided to Shanghai Langkun Digital Technology Co., Ltd.	4,624	49,608
Publishing services provided to Softstar Entertainment Inc.	–	2,578
Publishing services provided to Zhuhai Tianlang Interactive Technology Co., Ltd.	–	918
Development services provided to Softstar Entertainment Inc.	730	3,358
	391,709	274,209

35. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties

As disclosed in the statement of financial position, the Group had outstanding balances with related parties at 31 December 2019 and 2018.

Amounts due from related parties

	2019 RMB'000	2018 RMB'000
Softstar Entertainment Inc.*	17,002	9,717
Mr. Fan Yingjie**	1,800	800
Shenzhen Boliang Technology Co., Ltd.*	1,200	–
	20,002	10,517

* These balances are trade in nature.

** The balance is non-trade in nature.

Amounts due to related parties

	2019 RMB'000	2018 RMB'000
Shanghai Fengguo Network Information*	9,822	1,872
Guangzhou Leiyu Information Technology Co., Ltd. **	5,000	5,000
Softstar Entertainment Inc. **	4,783	4,137
Shanghai Langkun Digital Technology Co., Ltd.*	1,195	30,067
Shenzhen Haituo Shidai Technology Co., Ltd.*	–	21,418
Chengdu Jumeng Tianxia Technology Co., Ltd.*	–	7,667
Softstar International Inc.**	–	1,079
Zhuhai Tianlang Interactive Technology Co., Ltd.*	–	37
	20,800	71,277

* These balances are trade in nature.

** These balances are non-trade in nature.

The amounts due to related parties are unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.

35. RELATED PARTY TRANSACTIONS *(continued)*

(d) Compensation of key management personnel of the Group:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	11,927	5,776
Equity-settled share-based expense	286,995	–
Pension scheme contributions	303	263
	299,225	6,039

Further details of directors' emoluments are included in note 8 to the financial statements.

(e) Other transactions with related parties:

(i) Softstar Entertainment Inc. provided a guarantee for certain bank loans made to the Group of RMB7,254,000 as at 31 December 2018. Further details are included in note 25 to the financial statements.

(ii) In April 2018, CMGE Group, a fellow subsidiary of the Group, transferred the investment in CPC Fund to the Group for nil consideration. Mr. XIAO Jian and Mr. Hendrick SIN jointly hold the entire equity interest in the general partner of CPC Fund.

(iii) In April 2018, CMGE Group transferred the investment in Fontaine Fund to the Group for nil consideration.

(iv) In January 2018, Horgos Mobile Games Venture Capital Co., Ltd., a fellow subsidiary of the Group, transferred the investment in Beijing Qiwen Internet Technology Co., Ltd. to the Group for a consideration of RMB1,625,000.

(v) In June 2018, Shenzhen Lanyue, a fellow subsidiary of the Group, transferred the investment in Shenzhen Yunwa Technology Co., Ltd. to the Group for a consideration of RMB8,000,000.

(vi) In September 2018, Shenzhen Lanyue, a fellow subsidiary of the Group, transferred the domain name of VClub, a publishing platform, to the Group for nil consideration.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Financial assets

	2019 RMB'000	2018 RMB'000
Financial assets at fair value through profit or loss:		
Financial assets at fair value through profit or loss	725,137	538,701
At amortised cost:		
Trade receivables	789,903	472,431
Due from related parties	20,002	10,517
Financial assets included in prepayments, other receivables and other assets	56,185	48,066
Other current asset	209,286	–
Pledged deposits	406,267	–
Cash and cash equivalents	771,090	144,445
	2,252,733	675,459
	2,977,870	1,214,160

Financial liabilities

	2019 RMB'000	2018 RMB'000
Financial liabilities at fair value through profit or loss:		
Contingent consideration for business combination	260,262	358,772
At amortised cost:		
Trade payables	169,756	111,230
Due to related parties	20,800	71,277
Financial liabilities included in other payables and accruals	351,707	364,456
Interest-bearing bank borrowings	442,036	51,422
Lease liabilities	33,695	21,095
	1,017,994	619,480
	1,278,256	978,252

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2019 and 2018, 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, pledged deposits, trade receivables, amounts due from related parties, financial assets included in prepayments, other receivables and other assets, 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:

The fair values of listed equity investments are based on quoted market prices. The fair values of the unlisted equity investments have been estimated by using various applicable valuation techniques, including the discounted cash flow approach, comparable transactions approach, and other option pricing models. The fair value of contingent consideration payable is estimated by using the discounted cash flow model and Monte Carlo simulation model.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

	Valuation technique	Significant observable inputs	Range	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss	Discounted cash flow method	Long term growth rate	2019:3% 2018:3%	1% (2018:1%) increase/(decrease) in growth rate would result in increase/(decrease) in fair value by RMB4,121,000 (2018: RMB3,795,000)
		Long term operating margin	2019:14%-67% 2018:18%-67%	1% (2018:1%) increase/(decrease) in operating margin would result in increase/(decrease) in fair value by RMB1,210,000 (2018: RMB1,338,000)
		Weighted average cost of capital (WACC)	2019:18%-22% 2018:19%-22%	1% (2018:1%) increase/(decrease) in WACC would result in (decrease)/increase in fair value by RMB5,779,000 (2018:RMB:7,509,000)
Financial liabilities at fair value through profit or loss	Discounted cash flow method with the Monte Carlo simulation model	Volatility	2019: 43% 2018: 44%	1% (2018:1%) increase/(decrease) in volatility would result in (decrease)/increase in fair value by RMB1,000,000 (2018: RMB1,603,000)
		Discount rate	2019:4.9% 2018:4.9%	1% (2018:1%) increase/(decrease) in discount rate would result in (decrease)/increase in fair value by RMB3,500,000 (2018: RMB7,605,000)

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

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
Financial assets at fair value through profit or loss	222,022	333,473	169,642	725,137

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	64,700	322,783	151,218	538,701

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Liabilities 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
Contingent consideration for business combination	–	–	260,262	260,262

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
Contingent consideration for business combination	–	–	358,772	358,772

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, financial assets at fair value through profit or loss investments and cash and cash equivalents. The Group has various other financial assets and liabilities such as amounts due from related parties, trade receivables, other receivables, amounts due to related parties, trade payables and other payables and accruals and lease liabilities, 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 has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

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

	2019 RMB'000	2018 RMB'000
RMB/HKD		
Strengthened 5%	12,500	25,078
Weakened 5%	(12,500)	(25,078)
RMB/USD		
Strengthened 5%	17,386	8,869
Weakened 5%	(17,386)	(8,869)
RMB/KRW		
Strengthened 5%	(85)	357
Weakened 5%	85	(357)
RMB/TWD		
Strengthened 5%	(187)	(179)
Weakened 5%	187	179

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	810,907	810,907
Financial assets included in prepayments, other receivables and other assets					
– Normal**	56,185	–	–	–	56,185
Pledged deposits					
– Not yet past due	406,267	–	–	–	406,267
Cash and cash equivalents					
– Not yet past due	771,090	–	–	–	771,090
	1,233,542	–	–	810,907	2,044,449

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	481,478	481,478
Financial assets included in prepayments, other receivables and other assets					
– Normal**	48,066	–	–	–	48,066
Pledged deposits					
– Not yet past due	–	–	–	–	–
Cash and cash equivalents					
– Not yet past due	144,445	–	–	–	144,445
	192,511	–	–	481,478	673,989

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets, and amounts due from related parties is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Maximum exposure and year-end staging *(continued)*

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty. There are no significant concentrations of credit risk within the Group as the counterpart bases of the Group's trade receivables are widely dispersed.

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 the reporting period, based on the contractual undiscounted payments, is as follows:

	2019				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 3 years RMB'000	Total RMB'000
Amounts due to related parties	5,708	4,625	10,467	–	20,800
Trade payables	58,704	26,003	84,117	932	169,756
Contingent consideration for business combination	–	–	100,000	200,000	300,000
Financial instruments included in other payables and accruals	174,823	14,155	155,094	7,635	351,707
Interest-bearing bank borrowings	–	5,826	455,369	–	461,195
Lease liabilities	–	5,716	12,275	17,890	35,881
	239,235	56,325	817,322	226,457	1,339,339

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

	2018				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 3 years RMB'000	Total RMB'000
Amounts due to related parties	71,277	–	–	–	71,277
Trade payables	19,013	16,499	72,133	3,585	111,230
Contingent consideration for business combination	–	–	100,000	300,000	400,000
Financial instruments included in other payables and accruals	233,810	22,427	8,219	100,000	364,456
Interest-bearing bank borrowings	–	–	51,422	–	51,422
Lease liabilities	–	5,603	11,869	5,173	22,645
	324,100	44,529	243,643	408,758	1,021,030

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 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 reporting period.

The asset-liability ratios as at the end of each reporting period are as follows:

	2019 RMB'000	2018 RMB'000
Total assets	5,208,124	3,013,204
Total liabilities	1,496,510	1,150,475
Asset-liability ratio	29%	38%

39. EVENTS AFTER THE REPORTING PERIOD

A novel strain of coronavirus was detected and has emerged in China since early 2020. The Group has been closely monitoring the impact of the contagious coronavirus disease ("COVID-19"). Meanwhile, no employee of the Group is diagnosed with COVID-19, and the COVID-19 outbreak did not currently have any significant impact on the Group's operations. The Group will keep the contingency measures under supervision as the COVID-19 outbreak situation evolves.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investment in subsidiaries	231,490	219,742
Financial assets at fair value through profit or loss	165,544	–
Prepayments	135,401	–
Total non-current assets	532,435	219,742
CURRENT ASSETS		
Cash and cash equivalents	23,053	341
Due from subsidiaries	678,619	–
Prepayments, deposits and other receivables	3,928	103,059
Other current asset	209,286	–
Total current assets	914,886	103,400
CURRENT LIABILITIES		
Due to subsidiaries	173,415	316,526
Other payables and accruals	27,293	–
Total current liabilities	200,708	316,526
NET CURRENT ASSETS/(LIABILITIES)	714,178	(213,126)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,246,613	6,616
Net assets	1,246,613	6,616
EQUITY		
Issued capital	1,641	–
Reserves	1,244,972	6,616
Total equity	1,246,613	6,616

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Share incentive reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained Profits/ (Accumulated Loss) RMB'000	Total RMB'000
Balance at 1 January 2018	–	–	–	–	–
Profit for the year	–	–	–	6,661	6,661
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	–	–	(45)	–	(45)
Total comprehensive income for the year	–	–	(45)	6,661	6,616
At 31 December 2018 and 1 January 2019	–	–	(45)	6,661	6,616
Loss for the year	–	–	–	(354,391)	(354,391)
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	–	–	(13,207)	–	(13,207)
Total comprehensive loss for the year	–	–	(13,207)	(354,391)	(367,598)
Issue of shares for the IPO	1,348,899	–	–	–	1,348,899
Share issue expenses	(77,988)	–	–	–	(77,988)
Share-based compensation	–	335,043	–	–	335,043
At 31 December 2019	1,270,911	335,043	(13,252)	(347,730)	1,244,972

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2020.

In this annual report, unless the context otherwise requires, the following words and expressions shall have the following meanings.

"Ambitious Profit"	Ambitious Profit Investment Limited, an exempted company incorporated in the Cayman Islands with limited liability on 5 January 2018 and one of the Controlling Shareholders
"ARPPU"	average revenue per month per paying user, which represents the Company's revenue recognised for a particular game, a particular type of game or all of its games, as applicable, in the period divided by the number of paying users of the game, the type of game or all of its games, as applicable, in such period
"Articles of Association"	the articles of association of the Company, as amended, supplemented or otherwise modified from time to time
"Audit Committee"	the audit committee of the Company
"Auditor"	Ernst & Young, the independent auditor of the Company
"Beijing Orient L.P."	Beijing Orient Zhike Equity Investment Centre (Limited Partnership) (北京東方智科股權投資中心(有限合夥)), one of the Substantial Shareholders and an investment fund established on 22 May 2015 in the form of a limited partnership under the laws of the PRC, is controlled by its executive general partner ultimately controlled by Mr. Ma
"Beijing Softstar"	Softstar Technology (Beijing) Company Limited (軟星科技(北京)有限公司), a company established in the PRC on 19 September 2000, which is an indirect non-wholly owned subsidiary owned as to 51% by the Company
"Board"	the board of Directors
"Board Committees"	Audit Committee, Nomination Committee, Remuneration Committee, and Corporate Governance Committee
"BVI"	the British Virgin Islands
"CCG"	collectible card games, which are card games involving specially designed sets of playing cards in which players put together their own decks and then use the decks to win
"CG Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"Changpei Cayman"	Changpei Investment Centre, L.P., an exempted limited partnership registered in the Cayman Islands on 2 March 2018 and one of the Controlling Shareholders
"Changpei Shanghai"	Changpei (Shanghai) Investment Centre (Limited Partnership) (長霈(上海)投資中心(有限合夥)), a limited partnership registered in the PRC on 2 June 2015

"Chengdu Zhuoxing"	Chengdu Zhuoxing Technology Company Limited (成都卓星科技有限公司), a company established in the PRC on 24 June 2013 and wholly-owned by Shenzhen Lanyue, and is one of the PRC Operating Entities controlled by the Group through the Contractual Arrangements
"CMGE Mobile Tech"	China Mobile Game Technology Company Limited (中手游移動科技有限公司), a limited liability Company established under the laws of the PRC on 14 October 2015, which is held as to 44.67% by Changpei Shanghai, 22.33% by Beijing Orient L.P., 18.90% by Shanghai Pegasus, 9.20% by Zhongshouyou Brothers PRC and 4.90% by Yichong Investment
"CMGE Group"	CMGE Group Limited (formerly known as China Mobile Games and Entertainment Group Limited), an exempted company incorporated under the laws of the Cayman Islands with limited liability on 20 January 2011, which is wholly-owned by CMGE Mobile Tech
"CMGE Group BVI"	CMGE Group Limited, a company incorporated in the BVI on 21 December 2017, which is a wholly-owned subsidiary of the Company
"Company"	CMGE Technology Group Limited (中手游科技集团有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 20 March 2018
"Corporate Governance Committee"	the corporate governance committee of the Company
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Contractual Arrangements"	the series of contractual arrangements entered into by Shengyue Software and the PRC Operating Entities
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"CPC Fund"	China Prosperity Capital Mobile Internet Fund, L.P., an exempted limited partnership registered under the laws of the Cayman Islands on 14 December 2015, of which CMGE Group BVI is one of the limited partners
"CPC Management"	China Prosperity Capital (Shenzhen) Equity Investment Management Co., Ltd. (國宏嘉信(深圳)股權投資管理有限公司), a company established in the PRC with limited liability
"Director(s)"	the director(s) of the Company
"Fairview Ridge"	Fairview Ridge Investment Limited, a company incorporated in the BVI with limited liability on 6 March 2018 and one of the Controlling Shareholders
"Group"	the Company, its subsidiaries and the PRC Operating Entities
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong

"HKFRS"	Hong Kong Financial Reporting Standards, as issued by the Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"H5"	hypertext markup language 5, the fifth and current major version of the hypertext markup language standard; used for structuring and presenting content on web pages and for creating web applications
"IP"	intellectual property rights
"Latest Practicable Date"	15 April 2020, being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining certain information for inclusion in this annual report
"Listing"	listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	31 October 2019, being the date on which the Shares of the Company became listed and commenced trading on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MAUs"	monthly active users, which refers to the number of active users in the relevant calendar month; average MAUs for a particular period is the average of the MAUs n each month during that period
"mid-core to hardcore games"	games with more complex playing methods and more developed storyline, and include MMORPGs, CCGs and SLGs, amongst others
"MMORPGs"	massive multiplayer online role-playing games, in which a vast number of players play their selected game character in the virtual world, and interact with each other
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Motion Game"	Motion Game Company Limited (動力遊戲娛樂有限公司), a company incorporated in Hong Kong with limited liability on 20 July 2017 and one of the Controlling Shareholders
"MPUs"	monthly paying users, which refers to the number of paying users in the relevant calendar month; average MPUs for a particular period is the average of the MPUs in each month during that period
"Mr. Ma"	Mr. MA Yuntao (馬雲濤), the non-executive Director, and one of the Substantial Shareholders
"Mr. Sin"	Mr. SIN Hendrick (冼漢廸), the executive Director and vice chairman of the Company, and one of the Controlling Shareholders
"Mr. Xiao"	Mr. XIAO Jian (肖健), the executive Director, chairman and chief executive officer of the Company, and one of the Controlling Shareholders
"Nomination Committee"	the nomination committee of the Company

"Partnership"	China Prosperity Capital (Shenzhen) Shenzhen, Hong Kong, Macau Youth Angel Investment Enterprise (Limited Partnership) (國宏嘉信(深圳)深港澳青年天使創業投資企業(有限合夥))
"PC"	personal computer(s)
"Post-IPO Share Option Scheme"	the post-IPO share option scheme of the Company approved and adopted by the Shareholders on 20 September 2019
"PRC" or "China"	the People's Republic of China excluding, for the purpose of this report only, Hong Kong, the Macau Special Administrative Region and Taiwan
"PRC Operating Entities"	Chengdu Zhuoxing, Shenzhen Zhongshouyou and Shenzhen Douyue
"Pre-IPO RSU Schemes"	the pre-IPO restricted share unit schemes of the Company approved and adopted by the Shareholders on 20 September 2019
"Profound Power"	Profound Power Investment Limited, a company incorporated in BVI with limited liability on 8 March 2018 and one of the Controlling Shareholders
"Prospectus"	the Company's prospectus dated 19 October 2019 issued for Listing purpose
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"RSUs"	a restricted share unit granted under the Pre-IPO RSU Schemes
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of the Company with nominal value of US$0.0001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shengyue Software"	Shengyue Software (Shenzhen) Company Limited (盛悅軟件(深圳)有限公司), a company established in the PRC on 5 March 2018 and an indirectly wholly-owned subsidiary of the Company
"Shenzhen Douyue"	Shenzhen Douyue Internet Technology Company Limited (深圳市豆悅網絡科技有限公司), a company established in the PRC on 21 November 2014 and wholly-owned by Shenzhen Lanyue, and is one of the PRC Operating Entities controlled by the Group through the Contractual Arrangements
"Shenzhen Lanyue"	Shenzhen Lanyue Internet Technology Company Limited (深圳市嵐悅網絡科技有限公司), a company established in the PRC on 7 June 2013 and the registered shareholder of the PRC Operating Entities

"Shenzhen Shengli Huyu"	Shenzhen Shengli Huyu Internet Technology Company Limited (深圳市勝利互娛網絡科技有限公司), a company established in the PRC on 1 July 2015 and wholly-owned by Tianhu Software, an indirectly wholly-owned subsidiary of the Company
"Shenzhen Shengxin"	Shenzhen Shengxin Union Enterprise Management Partnership (Limited Partnership) (深圳聖忻聯合企業管理合夥企業 (有限合夥)), a limited partnership established in the PRC
"Shenzhen Zhongshouyou"	Shenzhen Zhongshouyou Internet Technology Company Limited (深圳市中手游網絡科技有限公司), a company established in the PRC on 10 July 2015 and wholly-owned by Shenzhen Lanyue, and is one of the PRC Operating Entities controlled by the Group through the Contractual Arrangements
"Silver Joyce"	Silver Joyce International Limited, a company incorporated in the BVI on 5 July 2012 and wholly-owned by Mr. Sin, which is one of the Controlling Shareholders
"SMAIGF"	Shenzhen Municipal Angel Investment Guiding Fund (深圳市天使投資引導基金有限公司), a company established in the PRC with limited liability
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Substantial Shareholders"	has the meaning ascribed to it under the Listing Rules
"Taiwan Softstar"	Softstar Entertainment Inc. (大宇資訊股份有限公司), which is a company listed on the Taiwan Stock Exchange (TAIPEI: 6111)
"U.S. dollars" or "US$" or "USD"	U.S. dollars, the lawful currency of the United States of America
"V1 Group"	V1 Group Limited (第一視頻集團有限公司), formerly known as VODone Limited, a company listed on the Main Board of the Stock Exchange (stock code: 0082)
"Victory Aspire"	Victory Aspire Group Limited (勝志集團有限公司), a limited company incorporated in the BVI on 28 May 2019, which is wholly-owned by Antopex Limited, the nominee for CMB Wing Lung (Trustee) Limited acting as trustee for the Xiao Family Trust
"Wenmai Hudong"	Beijing Wenmai Hudong Technology Company Limited (北京文脈互動科技有限公司), a company established in the PRC on 12 December 2014, which is an indirect wholly-owned subsidiary of the Company
"Wuhan Husheng"	Wuhan Husheng Investment Management Consulting Co., Ltd. (武漢互生投資管理諮詢有限公司), a company established in the PRC on 6 September 2011, the general partner of Changpei Shanghai

"Xiao Family Trust"	the ZSY Trust, a discretionary trust set up by Mr. Xiao, as settlor, and CMB Wing Lung (Trustee) Limited, as trustee, for the benefit of Mr. Xiao and his spouse
"Yichong Investment"	Shanghai Yichong Investment Centre (Limited Partnership) (上海一翀投資中心(有限合夥)), one of the Shareholders and a limited partnership established in the PRC on 20 April 2015, the general partner of which is Dazi Dingcheng
"Yunzhuo Beijing"	Yunzhuo Hontai Capital Investment (Beijing) Company Limited (雲卓弘泰資本投資(北京)有限公司), a company established in the PRC wholly owned by Yunzhuo Chengdu, and is in turn indirectly controlled by Mr. Ma
"Yunzhuo Chengdu"	Yunzhuo Capital Investment (Chengdu) Company Limited (雲卓資本投資(成都)有限公司), a company established in the PRC and is indirectly controlled by Mr. Ma
"Zhike L.P."	Hontai Zhike L.P., a limited partnership established in the Cayman Islands on 26 April 2018, and is one of the Substantial Shareholders and is controlled by its general partner, Hontai Zhike Cayman Limited, a company incorporated in the Cayman Islands ultimately controlled by Beijing Orient L.P.
"Zhongshouyou Brothers BVI"	Zhongshouyou Brothers Limited (中手游兄弟有限公司), a company incorporated in the BVI on 2 January 2018 and wholly-owned by Victory Aspire for the Xiao Family Trust, which is one of the Controlling Shareholders
"Zhongshouyou Brothers PRC"	Shaoxing Shangyu Zhongshouyou Brothers Investment Partnership (Limited Partnership) (紹興市上虞中手游兄弟投資合夥企業(有限合夥)), a limited partnership established on 23 November 2015 under the laws of the PRC, a shareholder of CMGE Mobile Tech