# 2020 ANNUAL REPORT


feiyu

**Feiyu Technology International Company Ltd.**

飛魚科技國際有限公司

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code： 1022

To Better The Virtual World

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive Directors**
Mr. YAO Jianjun *(Chairman and Chief Executive Officer)*
Mr. CHEN Jianyu *(President)*
Mr. BI Lin *(Vice President)*
Mr. LIN Jiabin *(Vice President)*
Mr. LIN Zhibin *(Vice President)*

**Independent Non-executive Directors**
Ms. LIU Qianli
Mr. LAI Xiaoling
Mr. MA Suen Yee Andrew

## AUDIT COMMITTEE

Ms. LIU Qianli *(Chairwoman)*
Mr. LAI Xiaoling
Mr. MA Suen Yee Andrew

## REMUNERATION COMMITTEE

Ms. LIU Qianli *(Chairwoman)*
Mr. BI Lin
Mr. LAI Xiaoling

## NOMINATION COMMITTEE

Mr. YAO Jianjun *(Chairman)*
Ms. LIU Qianli
Mr. MA Suen Yee Andrew

## AUTHORISED REPRESENTATIVES

Mr. BI Lin
Ms. LUI Mei Ka

## JOINT COMPANY SECRETARIES

Ms. LUI Mei Ka
Ms. WEI Yulan

## LEGAL ADVISERS

*As to Hong Kong law:*
**Dentons Hong Kong LLP**
Suite 3201, Jardine House
1 Connaught Place
Central, Hong Kong

*As to Cayman Islands law:*
**Conyers Dill & Pearman (Cayman) Limited**
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## AUDITORS

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

## REGISTERED OFFICE

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

## CORPORATE HEADQUARTERS

Floor 2, Block 2, No. 14 Wanghai Road
Ruanjian Yuan Two, Siming District
Xiamen, Fujian Province, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

17/F, Winsan Tower,
98 Thomson Road
Wanchai, Hong Kong

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH 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

**The Industrial and Commercial Bank of China Xiamen Branch, Chengjian sub-branch**
No. 270 Lujiang Road
Xiamen, Fujian Province
PRC

**China Merchants Bank, Beijing branch Jianwaidajie sub-branch**
No. 0668, Block 6, Jianwai SOHO
No. 39 Dongsanhuan Zhonglu
Chaoyang District
Beijing, PRC

## INVESTOR RELATIONS

**Christensen China Limited**
16/F, Methodist House,
36 Hennessy Road,
Wanchai, Hong Kong

## COMPANY'S WEBSITE

www.feiyuhk.com

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

1022

## DATE OF LISTING

5 December 2014

# FINANCIAL HIGHLIGHTS

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | For The Year Ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2020 (RMB'000)** | 2019 (RMB'000) | 2018 (RMB'000) | 2017 (RMB'000) | 2016 (RMB'000) |
| Revenue | **117,004** | 112,851 | 83,250 | 131,697 | 188,133 |
| Gross profit | **82,419** | 78,070 | 23,771 | 92,854 | 130,949 |
| Loss before tax | **(16,900)** | (87,311) | (117,192) | (389,635) | (153,269) |
| Loss after tax | **(18,119)** | (88,699) | (119,460) | (388,780) | (160,915) |
| Loss for the year attributable to owners of the parent | **(21,460)** | (80,342) | (107,508) | (377,455) | (151,002) |
| **Non-IFRSs Measures** | | | | | |
| – Adjusted net (loss)/profit attributable to owners of the parent (unaudited) (1) | **(18,344)** | (78,720) | (94,097) | (45,152) | 5,474 |
| **LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | | | | |
| – Basic and Diluted | **RMB(0.01)** | RMB(0.05) | RMB(0.07) | RMB(0.24) | RMB(0.10) |

Note:

(1). We define adjusted net loss/profit attributable to owners of the parent as net loss or income excluding share-based compensation, amortisation of intangible assets recognised for acquisitions, impairment losses on goodwill and intangible assets recognised for acquisition of Carrot Fantasy cash-generating unit ("CGU") and loss or gain on fair value change of contingent consideration recognised for acquisitions. The term of adjusted net loss/profit attributable to owners of the parent is not defined under IFRSs. The use of adjusted net loss/profit attributable to owners of the parent has material limitations as an analytical tool as it does not include all items that would impact our net loss or income attributable to owners of the parent for the year or accounting period.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2020 (RMB'000)** | 2019 (RMB'000) | 2018 (RMB'000) | 2017 (RMB'000) | 2016 (RMB'000) |
| **Assets** | | | | | |
| Non-current assets | **430,922** | 487,454 | 492,279 | 533,277 | 881,150 |
| Current assets | **203,141** | 243,276 | 284,333 | 228,972 | 319,001 |
| Total assets | **634,063** | 730,730 | 776,612 | 762,249 | 1,200,151 |
| **Equity and liability** | | | | | |
| Total equity | **489,166** | 509,735 | 577,974 | 635,688 | 1,025,774 |
| Non-current liabilities | **60,680** | 54,963 | 21,986 | 4,940 | 10,547 |
| Current liabilities | **84,217** | 166,032 | 176,652 | 121,621 | 163,830 |
| Total liabilities | **144,897** | 220,995 | 198,638 | 126,561 | 174,377 |
| Total equity and liabilities | **634,063** | 730,730 | 776,612 | 762,249 | 1,200,151 |

# CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our annual report for the year ended 31 December 2020.

The global coronavirus ("COVID-19") outbreak made 2020 a year full of challenges for everyone around the world and the lockdown measures to combat the spread of the virus had a mixed impact on different industries. The online game industry was one of the few industries that did not suffer from the pandemic since people spent more time than usual playing video games during the lockdown period at home. The regulatory environment in China, however, continued to exert pressure on the online game industry in 2020, especially around real-name registration, anti-addiction requirements, and strict reviews on subject matter and content for new game approvals.

Under these circumstances, we continued to focus on developing and operating high-quality games, publishing third-party games leveraging our knowhow and networks, as well as improving our operating efficiency. We achieved encouraging improvements on our financial results for 2020, with total revenue increasing by 3.7% year-over-year to RMB117.0 million and the net loss narrowing by 79.6% from 2019 to RMB18.1 million.

In 2020, we launched two new games, Neon Abyss (霓虹深淵) and Kaki Raid (咔嘰探險隊), which were both widely downloaded shortly after their launches and have been indispensable drivers of our revenue growth. Our portfolio of existing games also continued to support our performance thanks to their unparalleled quality, strong user stickiness and long lifecycles. For example, game operation revenue contributed by the Carrot Fantasy (保衛蘿蔔) series recorded a year-over-year increase of 60.3% to RMB11.3 million, while advertising revenue rose 57.3% to RMB16.1 million, even though the first game in the series was launched over 8 years ago.

On the operations front, we continued to streamline our corporate structure to improve operating efficiency. At the same time, to better incentivise our R&D teams, we granted our employees the opportunity to increase their salary twice a year. We also added a new R&D team in Fuzhou in late 2020 to develop games in a new genre that we are bullish on and decided to penetrate into.

Going forward, we will continue to develop high-quality games that leverage our existing IP and help us cultivate new IP, focusing on casual multiplayer online battle arena ("MOBA") and first-person shooter ("FPS") genres across multiple platforms. Our IP licensing and game publishing business will continue to serve as important drivers of incremental revenue and also create synergies with our game development and operation business.

I would like to take this opportunity to extend my deepest gratitude to our employees for their commitment and hard work throughout such a challenging year. I would also like to thank our shareholders for your continued support and confidence in our Company.

**YAO Jianjun**
*Chairman*

Hong Kong, 31 March 2021

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND OUTLOOK

**Overview**

2020 was an unusual year for all of us. The global coronavirus ("COVID-19") pandemic has changed people's working patterns and lifestyle, driving almost everything from offline to online. According to the "*2020 China Gaming Industry Report*" jointly published by the Game Publishers Association Publications Committee (GPC) of the China Audio-Video and Digital Publishing Association (中國音數協遊戲工委) and China Game Industry Research Institute (中國遊戲產業研究院), China's online game industry saw a 20.7% year-over-year increase in total revenue, reaching RMB278.7 billion for 2020. Mobile games, which contributed 75.2% of total online game industry revenue, grew by 32.6% year-over-year and were the major driving force of the industry's growth.

The Company recorded total revenue of approximately RMB117.0 million for 2020, representing a year-over-year increase of 3.7%, compared with RMB112.9 million for 2019. The increase was primarily driven by an increase in game operation revenue. Net loss for the year was RMB18.1 million, representing a significant reduction of 79.6% as compared with RMB88.7 million for 2019.

The Company stuck to its high-quality game strategy and spared no efforts to develop new games in several focused areas and create pleasurable gaming experience for users. During the year of 2020, the Company launched two new games: *Neon Abyss* (霓虹深淵), a shooter and roguelike game, and *Kaki Raid* (咔嘰探險隊), an RPG mobile game. *Neon Abyss* was launched in July 2020 as console version on Nintendo Switch, Play Station 4 and Xbox One as well as PC version on Steam, Wegame and Gog. It ranked top 10 on Steam's best-selling list the first week after its launch. *Kaki Raid* (咔嘰探險隊) was also launched in July 2020 in both iOS and Android versions and achieved remarkable success following its launch, ranking (i) No.1 on the free download list of Apple's China App Store; (ii) No.1 on the Hot List of TapTap, a leading game distribution platform in China, and also receiving an editor's recommendation; and (iii) No. 1 on the Hot Game List on Bilibili, a leading online entertainment platform for young generations in China.

As one of the Company's competitive advantages, it has licensed popular intellectual property (IP) from a number of its hit titles to various partners for their products and services. During the year, despite the negative impact of the COVID-19 outbreak in China in the first quarter of 2020, which resulted in a nationwide lockdown, the Company made significant progress in terms of expanding the categories of its IP licensing. In the fourth quarter of 2020, *Carrot Fantasy* (保衛蘿蔔) blind boxes, which were designed based on a number of characters and images from the game series, were launched on various platforms, including Tmall.com, WeChat Mini Program and Modian.com (摩點). This initiative is another outstanding example of the pan-entertainment development of a video game's IP in China.

In the meantime, the Company maintained its existing licensing partnerships, working with: (i) China Children's Press & Publication Group for *Carrot Fantasy* (保衛蘿蔔) books sold in Mainland China, Hong Kong, Macao, Taiwan, South Korea and a number of Southeast Asian countries; (ii) subsidiaries of Meitu for the stickers and emojis related to *Carrot Fantasy* (保衛蘿蔔) blind boxes to be used in Meitu apps globally; (iii) Beijing Hanyi Innovation Technology Co., Ltd. (北京漢儀創新科技股份有限公司) and Changzhou Mylafe Network Technology Co., Ltd. (常州麥拉風網絡科技有限公司) for Always-On Display (AOD) and wallpaper using images of *Carrot Fantasy* (保衛蘿蔔) for a number of mainstream Android phones in China, including Huawei, OPPO and vivo.

**Principal risks relating to the Company's business**

There are certain risks involved in the Company's operations and prospects, and future financial results could be materially and adversely affected by these risks. The following highlights the principal risks exposed to the Group and is not meant to be exhaustive:

- The Company may not be successful in effectively promoting its brand or enhancing brand recognition, and any negative publicity, regardless of its veracity, may materially and adversely affect the Company's business;

- The Company processes, stores and uses personal information and other data, and is therefore subject to governmental regulation and other legal obligations related to privacy, and the Company's actual or perceived failure to comply with such obligations could harm its business;

- The Company is required to comply with new policies or any amendment to current policies in relation to the game industry, which may affect its business operations;

- The mobile game and web game industries are highly competitive. If the Company is unable to compete effectively, its business, financial condition, results of operations and prospects will be materially and adversely affected;

- Delays in game launches could negatively affect the Company's operations and prospects;

- Technical issues that hamper the Group's ability to collect data and update games will negatively affect the Group's performance;

- The global economy experienced a slowdown. If game players reduce their spending on playing games due to such uncertain economic conditions, the Company's financial performance may be adversely affected;

- The Company depends on key personnels, and its business and growth prospects may be severely disrupted if it loses their services or is unable to attract new key employees;

- The Company relies on third-party distribution and publishing platforms to distribute and publish games. If these third-party distribution and publishing platforms fail to effectively promote the Company's games on their platforms or otherwise fulfil their obligations, the Company's business and results of operations will be materially and adversely affected; and

- The Company may not be able to adapt to the rapidly evolving mobile game and web game industries in China, in particular to the changes in technology. If it fails to anticipate or successfully implement new technologies, its games may become obsolete or uncompetitive, and its business, financial conditions, results of operations and prospects could be materially and adversely affected.

To mitigate the identified risks, the Company regularly monitors the risks, and reviews its business strategies and financial results. The Company has implemented the following strategies to ensure the risks are being managed:

- The Company continues to enhance its partnership with licensees and expand the range of licensed products and services leveraging the great popularity of its IP. The Company launched *Carrot Fantasy* (保衛蘿蔔) blind boxes to further expand its product categories;

- The Company takes technical and other measures, such as encryption and access restrictions, and seeks advice from independent specialists over its data protection practices to prevent the collected personal information from any unauthorised disclosure, damage or loss;

- The Company sets up a professional team to actively exchange views and information in relation to new policies and amendments to current policies of the game industry with relevant regulatory authorities, and takes appropriate actions to respond to the changes and ensure the Company is in compliance with the latest applicable laws and regulations;

- The Company sets up an overseas game distribution and operation team to expand international operations in selecting overseas markets to reduce the impact of policies and regulatory changes in Mainland China on the Group;

- The Company further strengthened its data analytics capabilities to continue developing popular games, improve the player experience and enhance the monetisation of its games;
- The Company closely monitors the progress of its pipeline games;
- The Company constantly enhances or upgrades its existing games with new features to attract players;
- To keep pace with market and technology changes, the Company brought on board new talent to maintain the competitiveness of its R&D teams and operation teams; and
- The Company maintains good relationships with a sufficient number of distribution and publishing platforms and strengthened its distribution and operation teams in Shenzhen to underpin its long-term development in game distribution and publishing.

**Outlook for 2021**

China's online game industry, in particular mobile games, is expected to continue to present robust growth in the coming year, despite the strict regulatory environment, thanks to the continuous upgrades of smart phones, cellular networks and other technologies that make playing mobile games increasingly engaging and entertaining. The Company will leverage its established library of IP, including *Carrot Fantasy* (保衛蘿蔔), *Shen Xian Dao* (神仙道), *San Guo Zhi Ren* (三國之刃), *Super Phantom Cat* (超級幻影貓) and *The Initial* (初體計劃) etc., to develop sequels and/or prequels, with an aim to meet the enthusiastic demand of loyal users, and to further deepen its IP. The sequels to two existing hit titles, *Carrot Fantasy IV* (保衛蘿蔔4) and *Shen Xian Dao III* (神仙道3), are currently under development and are expected to launch in 2021. Based on the accumulative registered users of the two titles of 593.8 million and 159.0 million, respectively, the Company believes that the two sequels will be well received by the market once they are launched.

In addition, the Company is also focusing on developing games in two major game genres – casual multiplayer online battle arena (MOBA) and first-person shooter (FPS). One of the casual MOBA games is expected to be launched in 2021.

To further enhance the synergies between game development and publishing, the Company's game publishing team has been working with third party game developers and will continue to select high quality games for global markets going forward. There are 4 games in the pipeline targeting a 2021 launch.

With the expected launch of *Carrot Fantasy IV* (保衛蘿蔔4) in 2021, the Company believes that it would significantly increase its IP licensing activity. On top of maintaining existing licensing partnerships and growing the number of products using the IP of *Carrot Fantasy* (保衛蘿蔔) game series, the IP licensing team will further explore partnerships with (i) social media platforms for the digital application of *Carrot Fantasy* (保衛蘿蔔) images; (ii) various merchandise producers that share the same target customers of the game series; and (iii) brick-and-mortar service providers that can use the IP for events and/or places with high traffic.

**Event after the year ended 31 December 2020**

There were no material subsequent events during the period from 1 January 2021 up to the date of this annual report.

**Final Dividend**

The Board did not declare a final dividend for the year ended 31 December 2020 (for the year ended 31 December 2019: Nil).

## FINANCIAL REVIEW

### Operating Information

*The Company's Games*

In 2020, the Company maintained a relatively limited product portfolio of high-quality games in order to focus on meeting the rapidly evolving demands of gamers. The Company successfully enlarged the user base and enhanced the brand recognition of its reputable IP, such as *Carrot Fantasy* (保衛蘿蔔) and *Shen Xian Dao* (神仙道), which laid a solid foundation for potential sequels. To ensure the success of the sequels, the Company made a strategic decision to invest more time and resources to develop the games. As a result, the Company only launched two new games in 2020: (i) *Neon Abyss* (霓虹深淵) and (ii) *Kaki Raid* (咔嘰探險隊).

The table below presents a breakdown of revenue from game operations in absolute amounts and as a percentage of total revenue:

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2020** | | 2019 | |
| | **(RMB'000)** | **(% of Total Revenue)** | (RMB'000) | (% of Total Revenue) |
| Game Operation | | | | |
| Web games | **14,592** | **12.5** | 15,256 | 13.5 |
| Mobile games | | | | |
| RPGs | **26,738** | **22.9** | 35,176 | 31.2 |
| Casual | **12,157** | **10.4** | 7,802 | 6.9 |
| PC games | **6,140** | **5.2** | 527 | 0.5 |
| HTML5 games | **260** | **0.2** | 185 | 0.2 |
| Console games | **5,870** | **5.0** | 280 | 0.2 |
| **Total** | **65,757** | **56.2** | 59,226 | 52.5 |

Revenue contributed by game operations was approximately RMB65.8 million, representing a year-over-year increase of approximately 11.0%, compared with approximately RMB59.2 million for 2019. The increase was primarily due to the increase in revenue contribution from PC games and console games driven by the launch of *Neon Abyss* (霓虹深淵) in July 2020. The increase was also due to the increase in revenue contribution from casual games as the *Carrot Fantasy* (保衛蘿蔔) series was updated with new features to retain existing gamers and attract new players during the stay-at-home period in 2020. The increase was partially offset by the decline in revenue from the Company's existing RPG games as they reached the later stages of their respective lifecycles.

*The Company's Players*

The Company assesses its operating performance using a set of key performance indicators, which include MAUs, MPUs and ARPPU. Fluctuations in operating data were primarily a result of changes in the number of players who played, downloaded (in the case of mobile games and PC games) and paid for virtual items and premium features in the games. Using these key performance indicators helps the Company monitor its ability to offer engaging online games, the popularity of its games, the monetisation potential of its player base and the degree of competition in the online game industry, and as a result, it allows the Company to continuously improve its business strategies.

As at 31 December 2020, the Company's (i) RPG mobile games and web games had approximately 228.5 million cumulative registered users, composed of approximately 172.7 million web game users and approximately 55.8 million mobile game users; (ii) casual games had approximately 604.0 million cumulative activated downloads; (iii) HTML5 games had approximately 36.5 million cumulative registered users; (iv) PC games had approximately 554,000 cumulative copies sold; and (v) console games had approximately 159,000 cumulative copies sold. For the month of December 2020, the Company's (i) RPG mobile games and web games had approximately 0.3 million MAUs, composed of approximately 0.1 million mobile game MAUs and approximately 0.2 million web game MAUs; (ii) casual games had approximately 4.1 million MAUs; and (iii) HTML5 games had approximately 0.3 million MAUs. The following table sets forth certain operating statistics related to the Company's business for the years indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2020** | 2019 | **Change%** |
| Average MPUs | | | |
| Web games (RPGs) (000's) | **8** | 9 | (11.1) |
| Mobile games (RPGs) (000's) | **25** | 33 | (24.2) |
| Casual (000's) | **102** | 98 | 4.1 |
| ARPPU | | | |
| Web games (RPGs) (RMB) | **147.0** | 142.6 | 3.1 |
| Mobile games (RPGs) (RMB) | **89.6** | 75.2 | 19.1 |
| Casual (RMB) | **9.9** | 5.9 | 67.8 |

Note: Duplicated paying users of games published on the Company's own platforms were not eliminated during calculation.

MPUs for web games were approximately 8,000 for the year ended 31 December 2020, compared with approximately 9,000 for the year ended 31 December 2019. The decrease was because the web games were reaching the later stages of their expected lifecycles, and that the Company has shifted its strategic focus from web games to mobile games starting from 2013. Average MPUs for mobile RPG games decreased from approximately 33,000 for the year ended 31 December 2019 to approximately 25,000 for the year ended 31 December 2020, primarily because *San Guo Zhi Ren* (三國之刃), one of the Company's hit titles, was reaching the later stage of its expected lifecycle. Average MPUs for casual games increased from approximately 98,000 for the year ended 31 December 2019 to approximately 102,000 for the year ended 31 December 2020, primarily due to an increase in the average MPUs for the *Carrot Fantasy* (保衛蘿蔔) series, which was updated with new features to retain existing gamers and attract new players during the stay-at-home period in 2020.

ARPPU for web games increased from approximately RMB142.6 for the year ended 31 December 2019 to approximately RMB147.0 for the year ended 31 December 2020, primarily due to an increase in ARPPU for the web version of *Shen Xian Dao* (神仙道), which has entered a mature stage of its expected lifecycle when loyal players are more willing to make in-game purchases. ARPPU for casual games increased from approximately RMB5.9 for the year ended 31 December 2019 to approximately RMB9.9 for the year ended 31 December 2020, primarily due to the increase in ARPPU for the *Carrot Fantasy* (保衛蘿蔔) game series, which was updated frequently with new features, and as a result, users have been more willing to pay. ARPPU for RPG mobile games increased from approximately RMB75.2 for the year ended 31 December 2019 to approximately RMB89.6 for the year ended 31 December 2020, primarily due to the increase in ARPPU for the mobile version of *Shen Xian Dao* (神仙道), which was frequently updated with new features, and as a result, loyal players were more willing to make in-game purchases.

As part of its business strategy, the Company continued to launch various in-game promotions and activities, release regular updates for premium games and offer high-quality customer service, in order to enhance in-game features and maintain user interest. The Company believes that all of these initiatives had a significant influence on retaining active players and expanding the active player base for the Group.

**The year ended 31 December 2020 compared with the year ended 31 December 2019**

The following table sets forth the Group's income statement for the year ended 31 December 2020 as compared with the year ended 31 December 2019.

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2020** **(RMB'000)** | 2019 (RMB'000) | **Change%** |
| **Revenue** | **117,004** | 112,851 | 3.7 |
| Cost of sales | **(34,585)** | (34,781) | (0.6) |
| **Gross profit** | **82,419** | 78,070 | 5.6 |
| Other income and gains | **33,902** | 14,333 | 136.5 |
| Selling and distribution expenses | **(17,939)** | (29,257) | (38.7) |
| Administrative expenses | **(43,647)** | (75,387) | (42.1) |
| Research and development costs | **(56,769)** | (70,448) | (19.4) |
| Finance costs | **(1,706)** | (2,672) | (36.2) |
| Other expenses | **(12,786)** | (670) | 1,808.4 |
| Share of losses of associates | **(374)** | (1,280) | (70.8) |
| **LOSS BEFORE TAX** | **(16,900)** | (87,311) | (80.6) |
| Income tax expense | **(1,219)** | (1,388) | (12.2) |
| **LOSS FOR THE YEAR** | **(18,119)** | (88,699) | (79.6) |
| Attributable to: | | | |
| Owners of the parent | **(21,460)** | (80,342) | (73.3) |
| Non-controlling interests | **3,341** | (8,357) | (140.0) |

**Revenue**

The following table sets forth a breakdown of the Group's revenue for the year ended 31 December 2020 and 2019:

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2020** | | 2019 | |
| | **(RMB'000)** | **(% of Total Revenue)** | (RMB'000) | (% of Total Revenue) |
| Game Operations | **65,757** | **56.2** | 59,226 | 52.5 |
| Online game distribution | **29,083** | **24.8** | 30,885 | 27.4 |
| Licensing and IP-related income | **5,309** | **4.5** | 10,546 | 9.3 |
| Advertising revenue | **16,815** | **14.4** | 11,430 | 10.1 |
| Technical service income | **40** | **0.1** | 764 | 0.7 |
| **Total** | **117,004** | **100.0** | 112,851 | 100.0 |

Total revenue increased by approximately 3.7% from the year ended 31 December 2019 to approximately RMB117.0 million for the year ended 31 December 2020.

Revenue from game operations increased by approximately 11.0% year-over-year to approximately RMB65.8 million for the year ended 31 December 2020. The increase was primarily attributable to the launch of *Neon Abyss* (霓虹深淵) in July 2020, which received highly positive feedback.

Revenue from online game distribution decreased by approximately 5.8% year-over-year to approximately RMB29.1 million for the year ended 31 December 2020. The decrease was primarily due to *Horcrux College* (魂器學院) entering the mature stage of its expected lifecycle in early 2020. The decrease was partially offset by an increase in revenue contribution from *Kaki Raid* (咔嘰探險隊), which was launched in July 2020.

Licensing and IP-related income decreased by approximately 49.7% year-over-year to approximately RMB5.3 million for the year ended 31 December 2020. The decrease was primarily attributable to the recognition of licensing fees related to *Carrot Fantasy III* (保衛蘿蔔3) and the web version of *Shen Xian Dao II* (神仙道2) of approximately RMB3.0 million for the year ended 31 December 2019. No such licensing fees were recognised during the year ended 31 December 2020 following the expiration of the licensing agreements in mid-2019. The decrease was also attributable to the recognition of an one-off licensing fee of approximately RMB6.6 million for the HTML5 version of *Shen Xian Dao* (神仙道) for the year ended 31 December 2019, while there was no such one-off licensing fees recognised for the year ended 31 December 2020. The decrease in licensing and IP-related income was partially offset by the recognition of a licensing fee of approximately RMB4.0 million for *Sprites Legend* (靈妖記—神仙道外傳) for the year ended 31 December 2020, while no such licensing fee was recognised for the year ended 31 December 2019.

Advertising revenue increased by approximately 47.1% to approximately RMB16.8 million for the year ended 31 December 2020, primarily due to an increase in advertising revenue contributed by *Carrot Fantasy III* (保衛蘿蔔3) as the licensing agreement for game publishing and operation expired in June 2019, where upon the Company introduced advertising business. The increased MAUs for the *Carrot Fantasy* (保衛蘿蔔) series during the stay-at-home period in 2020 was another driver for the advertising revenue growth thanks to the long lifecycle of the games (the latest one had been in operation for 4.5 years).

Technical service income of approximately RMB0.8 million recorded for the year ended 31 December 2019 was generated by the provision of technical support services to Meitu's game distribution platform in the first quarter of 2019. After the effective termination of the exclusive licensing agreement with Meitu Networks, there were no such technical support services rendered for the year ended 31 December 2020.

**Cost of sales**

Cost of sales was approximately RMB34.6 million for the year ended 31 December 2020, which remained steady with approximately RMB34.8 million for the year ended 31 December 2019.

**Gross profit and gross profit margin**

Gross profit increased by approximately 5.6% from approximately RMB78.1 million for the year ended 31 December 2019, to approximately RMB82.4 million for the year ended 31 December 2020. Gross profit margin for the year ended 31 December 2020 was 70.4%, compared with 69.2% for the year ended 31 December 2019.

**Other income and gains**

Other income and gains increased by approximately 136.5% from approximately RMB14.3 million for the year ended 31 December 2019, to approximately RMB33.9 million for the year ended 31 December 2020. The increase in other income and gains was primarily due to the increase in bank interest income, bond interest income and investment income from approximately RMB6.1 million for the year ended 31 December 2019 to approximately RMB25.2 million for the year ended 31 December 2020, primarily due to the fair value changes of the Company's financial assets at fair value through profit or loss and gain from withdrawal of the Company's life insurance policies.

**Selling and distribution expenses**

Selling and distribution expenses decreased by approximately 38.7% from approximately RMB29.3 million for the year ended 31 December 2019, to approximately RMB17.9 million for the year ended 31 December 2020, which was mainly attributable to a decrease in advertising fees from approximately RMB25.2 million to approximately RMB14.0 million, primarily because most promotional activities for *Horcrux College* (魂器學院) were carried out at the early stage of the launch of *Horcrux College* (魂器學院) in 2019.

**Administrative expenses**

Administrative expenses decreased by approximately 42.1% from approximately RMB75.4 million for the year ended 31 December 2019 to approximately RMB43.6 million for the year ended 31 December 2020. The decrease was primarily attributable to a decline in professional fees from approximately RMB9.4 million for the year ended 31 December 2019, to approximately RMB5.2 million for the year ended 31 December 2020. The decline in professional fees was mainly because of the professional fees incurred in relation to the proposed acquisition of the entire issued share capital of Sharelink Technology International Company Ltd. (an exempted company incorporated in the Cayman Islands with limited liability) during the year ended 31 December 2019, while no such professional fees were incurred in 2020. The decrease was also due to the recognition of a provision for bad debt of approximately RMB20.5 million for the year ended 31 December 2019. No such expenses were recognised for the year ended 31 December 2020. The bad debt recognised for the year ended 31 December 2019 was mainly composed of (i) a provision of approximately RMB14.1 million for the year ended 31 December 2019 on loans to an associated company, Xiamen Chenxing, the developer of *Peace in Chang'an* (天下長安), which the Company did not expect to recover due to the under performance of the game in 2019; (ii) a provision of approximately RMB1.6 million for the year ended 31 December 2019 related to a deposit for the development of the land located in Huli District, Xiamen, the PRC (the "Land") as disclosed in the Company's announcement dated 21 July 2016, which the Company did not expect to recover as the Company did not fulfill the tax contribution condition as agreed in the agreement in respect of the supervision of the Land; and (iii) a provision of approximately RMB3.0 million for a prepaid licensing fee that the Company did not expect to recover. In addition, the decrease in administrative expenses was also due to a decline in staff costs from approximately RMB34.0 million for the year ended 31 December 2019, to approximately RMB29.6 million for the year ended 31 December 2020 as a result of a continuous streamlining of the Group's corporate structure since mid-2019.

**R&D costs**

R&D costs decreased by approximately 19.4% from approximately RMB70.4 million for the year ended 31 December 2019, to approximately RMB56.8 million for the year ended 31 December 2020. The decline was primarily attributable to a decline in outsourcing expenses from approximately RMB11.0 million for the year ended 31 December 2019, to approximately RMB4.5 million for the year ended 31 December 2020, as the Company reduced the outsourcing of certain aspects of game development, such as the graphic design for several pipeline games, most of which were launched in 2019 or have entered testing phases in 2020. The decrease was also due to the decrease in staff cost as a result of pension scheme contribution exemptions during the COVID-19 pandemic.

**Finance costs**

Finance costs decreased by approximately 36.2% from approximately RMB2.7 million for the year ended 31 December 2019, to approximately RMB1.7 million for the year ended 31 December 2020. The decrease was primarily due to a decline in interest expenses on time loans from approximately RMB2.2 million for the year ended 31 December 2019, to approximately RMB1.2 million for the year ended 31 December 2020. During the year, the Company repaid a time loan that was drawn down as financial leverage for life insurance policies.

**Other expenses**

Other expenses were approximately RMB12.8 million for the year ended 31 December 2020, compared with approximately RMB0.7 million for the year ended 31 December 2019. The increase was primarily due to a full impairment loss of approximately RMB10.2 million related to an investment in Global OW Technology Co. Limited ("Global OW"), an associate of the Company. The full impairment loss was made because the business activities of Global OW were significantly impacted by the COVID-19 pandemic, and the current working capital of Global OW is expected to be insufficient to maintain its future business operation. Given the extremely low likelihood of recovering the investment, the Company decided to make a full impairment loss on the investment in Global OW. The increase in other expenses was also due to an increase in exchange losses from approximately RMB0.5 million for the year ended 31 December 2019 to approximately RMB1.4 million for the year ended 31 December 2020.

**Income tax expense**

Income tax expense decreased by approximately 12.2% from approximately RMB1.4 million for the year ended 31 December 2019, to approximately RMB1.2 million for the year ended 31 December 2020. The decline was mainly due to the decreases in revenue and profits of the subsidiaries that were not exempt from income tax.

**Loss for the year**

As a result of the above, the loss for the year decreased by approximately 79.6% from approximately RMB88.7 million for the year ended 31 December 2019, to approximately RMB18.1 million for the year ended 31 December 2020. Loss attributable to owners of the parent decreased by approximately 73.3% from approximately RMB80.3 million for the year ended 31 December 2019, to approximately RMB21.5 million for the year ended 31 December 2020.

**Non-IFRSs measures – Adjusted net loss attributable to owners of the parent**

In addition to the Company's consolidated financial statements that are presented in accordance with IFRSs, Feiyu also provides further information based on the adjusted net loss attributable to owners of the parent as an additional financial measure. The Company presents this financial measure because it is used by management to evaluate financial performance by eliminating the impact of items that the Company does not consider indicative of business performance. The Company also believes that these non-IFRSs measures provide additional information to investors and others, helping them understand and evaluate the consolidated results of operations in the same manner as management and to compare financial results across accounting periods and with those of various peer companies.

For the years ended 31 December 2020 and 2019, the Company defined the adjusted net loss attributable to owners of the parent as net loss attributable to owners of the parent excluding share-based compensation. The term of adjusted net loss or profit attributable to owners of the parent was not defined under IFRSs. The use of adjusted net loss attributable to owners of the parent has material limitations as an analytical tool as it did not include all items that would impact net loss attributable to owners of the parent for the accounting period.

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2020 (RMB'000)** | 2019 (RMB'000) | **Change%** |
| **Loss for the year attributable to owners of the parent** | **(21,460)** | (80,342) | (73.3) |
| Add: | | | |
| Share-based compensation | **3,116** | 1,622 | 92.1 |
| **Total** | **(18,344)** | (78,720) | (76.7) |

**Financial Position**

As at 31 December 2020, total equity of the Group was approximately RMB489.2 million, compared with approximately RMB509.7 million as at 31 December 2019. The decrease was mainly due to the loss of approximately RMB18.1 million that was recorded for the year ended 31 December 2020.

As at 31 December 2020, the Group recorded net current assets of approximately RMB118.9 million, representing an increase of approximately 54.0%, compared with approximately RMB77.2 million as at 31 December 2019. The increase was mainly due to the withdrawal of life insurance policies at a surrender value of approximately US$14.5 million (equivalent to approximately RMB97.0 million) and the repayment of a bank loan of approximately HKD69.0 million (equivalent to approximately RMB58.6 million), which was drawn down by the Company as financial leverage for the life insurance policies, during the year ended 31 December 2020.

**Liquidity and Capital Resources**

The table below sets forth selected cash flow data from the Group's consolidated statement of cash flows:

| | **2020 (RMB'000)** | 2019 (RMB'000) | **Change%** |
|---|---|---|---|
| Net cash flow used in operating activities | **(35,469)** | (72,299) | (50.9) |
| Net cash flow from investing activities | **52,048** | 131,314 | (60.4) |
| Net cash flow (used in)/from financing activities | **(56,166)** | 17,466 | (421.6) |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | **(39,587)** | 76,481 | (151.8) |
| Cash and cash equivalents at the beginning of year | **179,218** | 104,922 | 70.8 |
| Effect of foreign exchange rate changes, net | **(437)** | (2,185) | (80.0) |
| Cash and cash equivalents at the end of year | **139,194** | 179,218 | (22.3) |

Total cash and cash equivalents were approximately RMB139.2 million as at 31 December 2020, compared with approximately RMB179.2 million as at 31 December 2019. The decrease was primarily due to the utilisation of cash and cash equivalents in operating activities.

As at 31 December 2020, approximately RMB55.7 million of financial resources (31 December 2019: RMB53.3 million) were held in deposits denominated in non-RMB currencies. The Company currently does not hedge transactions undertaken in foreign currencies, rather it manages foreign exchange exposure by limiting foreign currency exposure and constantly monitoring foreign currency levels. The Group has adopted a prudent cash and financial management policy. In order to better control costs and minimise costs of funds, the Group's treasury activities were centralised and cash was generally deposited at banks, denominated mostly in Renminbi, Hong Kong dollars and United States dollars.

As at 31 December 2020, the Group had aggregate bank loans of approximately RMB63.8 million (31 December 2019: RMB116.7 million), of which approximately RMB10.0 million is payable within one year, approximately RMB50.0 million is payable after one year but within five years, and approximately RMB3.8 million is payable after five years. The Group had lease liabilities of approximately RMB6.3 million (31 December 2019: RMB9.8 million), of which approximately RMB3.7 million is payable within one year and approximately RMB2.6 million is payable after one year but within five years as set out in the agreements.

As at 31 December 2020, the Group's bank loans of approximately RMB63.8 million (31 December 2019: RMB56.1 million) which were used by the Company for the construction of the Company's R&D center, were with an interest rate of approximately 5.05% and were secured by the land use rights and construction-in-progress on the Land.

**Significant Debt Investments at Fair Value Through Other Comprehensive Income, Equity Investments Designated at Fair Value Through Other Comprehensive Income, and Financial Assets at Fair Value Through Profit or Loss**

As at 31 December 2020, the Company had debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss of approximately RMB138.0 million (31 December 2019: RMB197.9 million), which represented the Company's investment in straight bonds, perpetual bonds and a bond fund issued by banks or reputable companies, with Standard & Poor ratings above BB–, Moody's ratings above Ba2 and coupon rates ranging from 4.5% to 6.25% per annum, and interests held by the Group in six unlisted companies and one company listed on the National Equities Exchange And Quotations of the PRC.

The principal of the debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income, and financial assets at fair value through profit or loss as at 31 December 2020 were not protected.

According to the Company's current internal investment management policies, no less than 50% of total investments can be invested in risk-free or principal protected investments, while for the remainder, up to 50% of the total investments is invested in low risk products. The Company has a diversified investment portfolio to mitigate risks. In addition, the above-mentioned investments were made in line with the Company's effective capital and investment management policies and strategies.

**Performance and Future Prospect of Significant Debt Investments at Fair Value Through Other Comprehensive Income, Equity Investments Designated at Fair Value Through Other Comprehensive Income, and Financial Assets at Fair Value Through Profit or Loss**

Details of the Group's debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income, and financial assets at fair value through profit or loss as at 31 December 2020 are presented as follows:

*(A) Straight Bonds*

| Name of the straight bonds | *Notes* | Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2020 (RMB'000) | Gain on fair value changes recognised in consolidated statement of comprehensive income for the year ended 31 December 2020 (RMB'000) | Fair value as at 31 December 2020 (RMB'000) | Percentage of total FVOCI and FVPL Investments at 31 December 2020 | Percentage of total assets of the Group as at 31 December 2020 |
|---|---|---|---|---|---|---|
| Huarong Finance II Co., Ltd. ("Huarong Finance II") | *2* | 3 | – | – | 0.0% | 0.0% |
| Huarong Finance 2017 Co., Ltd. ("Huarong Finance 2017") | *3* | 908 | 932 | 22,025 | 16.0% | 3.5% |

Notes:

1. The Group's investment in straight bonds has been accounted for as debt investments at fair value through other comprehensive income. The fair value of the straight bonds was estimated using a discounted cash flow valuation model based on the assumptions that were supported by observable market inputs. Please refer to note 21 to the financial statements for details of the investment in straight bonds.

2. On 17 February 2015, the Group invested in a bond issued by Huarong Finance II with a nominal amount of US$5,000,000 at a consideration of US$5,135,000 (equivalent to approximately RMB31.5 million). The bond has a coupon interest rate of 4.5% per annum with a maturity period of 5 years. On 26 December 2016, the Group sold part of the straight bond with a nominal amount of US$1,500,000 at a consideration of US$1,566,000 (equivalent to approximately RMB10.8 million). In the second half of 2018, the Group sold part of the above straight bond with a nominal amount of US$3,300,000 at a consideration of US$3,325,000 (equivalent to approximately RMB22.8 million). On the maturity date i.e. 16 January 2020, the remaining part of the straight bond with a nominal amount of US$200,000 was fully redeemed.

3. On 23 June 2017, the Group invested in a bond issued by Huarong Finance 2017 with a nominal amount of US$3,000,000 at a consideration of US$3,142,000 (equivalent to approximately RMB21.4 million). The bond has a coupon interest rate of 4.75% per annum with a maturity period of 10 years.

   Huarong Finance 2017, the issuer of the bond, is a wholly-owned subsidiary of China Huarong International Holdings Limited, which is in turn a wholly-owned subsidiary of China Huarong Asset Management Co., Ltd. ("China Huarong"), of which its shares are listed on the Main Board of the Stock Exchange since 30 October 2015 (Stock Code: 2799). China Huarong (together with its subsidiaries, "Huarong Group") is a leading asset management company ("AMC") and one of the four largest state-owned AMCs in the PRC. The principal businesses of Huarong Group are distressed asset management, financial intermediary services, principal investments, banking, financial leasing, securities, trust and special asset management.

   Pursuant to the interim result announcement of Huarong Group for the six months ended 30 June 2020, Huarong Group recorded a total income of approximately RMB45,688 million and profit after tax for the period of approximately RMB792 million, compared with total income of approximately RMB56,810 million and profit after tax of approximately RMB2,812 million for the six months ended 30 June 2019. For the year ended 31 December 2019, net profit for Huarong Group has increased by 50.4% compared with that for the year ended 31 December 2018, owing to structural adjustment, strengthened assets and liabilities management and improved capital condition. During the first half of 2020, however, the performance was severely impacted by COVID-19 epidemic and the challenges of complex and volatile business environment, which led to a decrease of interest income and a significant drop in the gains generated from fair value changes on part of financial assets held by Huarong Group. In spite of the temporary decline in the achievement, Huarong Group will continue to forge the core business of distressed assets to be strong and precise, accelerate the transformation and innovation of core business, promote risk resolution and downsizing and deepen reforms, striving to achieve the goal of high-quality development.

   The Group believes that Huarong Group is using a number of measures to prevent and mitigate the financial risks as well as promote the transformational development and is therefore optimistic about the future prospect of the bond issued by Huarong Group.

*(B) Perpetual Bonds*

| **Name of the perpetual bonds** | *Notes* | **Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2020** (RMB'000) | **Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2020** (RMB'000) | **Fair value as at 31 December 2020** (RMB'000) | **Percentage of total FVOCI and FVPL Investments at 31 December 2020** | **Percentage of total assets of the Group as at 31 December 2020** |
|---|---|---|---|---|---|---|
| CCB Life Insurance Co. Ltd 2017 | *2* | 468 | (247) | 9,922 | 7.2% | 1.6% |
| Chalieco Hong Kong Corp. Ltd 2019 | *3* | 520 | (62) | 10,092 | 7.3% | 1.6% |
| FWD Ltd 2017 | *4* | 325 | 10 | 10,207 | 7.4% | 1.6% |

Notes:

1. The Group's investment in perpetual bonds has been accounted for as financial assets at fair value through profit or loss. The fair value of the perpetual bonds was observed from Thomson Reuters Eikon system. Please refer to note 21 to the financial statements for details of the investment in perpetual bonds.

2. On 17 January 2020, the Group invested in a bond issued by CCB Life Insurance Company Limited ("CCB Life Insurance") with a nominal amount of US$1,500,000 at a consideration of US$1,547,000 (equivalent to approximately RMB10.6 million). The bond has a coupon interest rate of 4.5% per annum with the maturity date on 21 April 2077 and extendable for an additional 60 calendar years with no limit on the number of extension times at issuer's option.

   CCB Life Insurance, the issuer of the bond, was established in 1998 and had been named as Pacific Antai Life before it became a subsidiary of China Construction Bank Corporation ("CCB") in 2011, as one of the first bank-controlled insurance companies approved by the State Council. CCB Life Insurance is the sole insurance platform of CCB and a crucial value-generating segment of CCB, which serves the needs of CCB's customers on insurance protection, long-term savings and wealth inheritance. Leveraging CCB's rich resources and continuous strategic support, CCB Life Insurance has become a leading player with one of the largest premium volume and one of the highest profitability among all bank-controlled life insurance companies in the PRC.

   Pursuant to the Information Disclosure Report of CCB Life Insurance for the year ended 31 December 2019, CCB Life Insurance recorded a total income of approximately RMB32,439 million and net profit for the year of approximately RMB757 million. Going forward, CCB Life Insurance is actively developing a comprehensive product portfolio to meet clients' needs and to capture the growing opportunities in China's life insurance market, aiming at developing into a mature company with stable growth and significant increase in value with solid customer base, diversified product suite, improved business structure, safer and more efficient uses of insurance funds, more reasonably organised distribution channels, and more resilient operational support systems.

   The Group believes that CCB Life Insurance is benefiting from continuous and comprehensive strategic support from CCB and its established diversified distribution channels with distinct bancassurance features and is therefore optimistic about the future prospect of the bond issued by CCB Life Insurance.

3. On 17 January 2020, the Group invested in a senior guaranteed perpetual capital bond issued by Chalieco Hong Kong Corporation Limited. ("Chalieco HK") with a nominal amount of US$1,500,000 at a consideration of US$1,546,000 (equivalent to approximately RMB10.7 million) and a coupon interest rate of 5.0% per annum with no fixed redemption date. The bond was unconditionally and irrevocably guaranteed by China Aluminum International Engineering Corporation Limited (the "Guarantor"), shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2068). Chalieco HK and the Guarantor are subsidiaries of Aluminum Corporation of China which is wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

   Chalieco HK, a company incorporated in Hong Kong on 10 December 2013, is a wholly-owned subsidiary of the Guarantor (together with its subsidiaries, the "Chalieco") and serves as a special purpose vehicle for offshore financing as well as some trading transactions which forms part of Chalieco's overall trading business. Chalieco, established in 2011 and listed on the Main Board of the Stock Exchange in 2012, is a leading technology, engineering service and equipment provider in the nonferrous metals industry in China, capable of providing fully integrated engineering solutions covering the complete value chain of various stages in the nonferrous metals industry. Chalieco is also an industry leader in the world covering the full value chain of the nonferrous metals industry, providing planning, design, mining, processing, smelting, equipment manufacturing and trading services. In August 2018, Chalieco was listed on the main board of the Shanghai Stock Exchange. It became the first nonferrous engineering technology company with both listed A Shares and H Shares, and has established two capital market platforms in the PRC and Hong Kong, laying a foundation for the rapid development and scientific advancement for Chalieco in the future.

Pursuant to the annual results announcement of Chalieco for the year ended 31 December 2020, Chalieco recorded a revenue of approximately RMB23,026 million and net loss after tax of approximately RMB1,856 million, compared with net profit after tax of approximately RMB223 million for the year ended 31 December 2019. As affected by the COVID-19 epidemic at home and abroad, Chalieco commenced construction at the end of March 2020 successively. Although Chalieco had been actively pushing forward the resumption of work and production, and accelerating the construction progress, the overall operating income and profitability had dropped significantly as compared with that of the same period of last year; at the same time, the direction of Chalieco's trading business gradually shifted to centralised procurement of internal engineering equipment led to the reduction of the original business scale. Besides, as affected by the epidemic, certain customers encountered difficulties in making payments, and therefore delayed the payments. Chalieco had reassessed the expected credit loss of the receivables, and made relevant provision for impairment in accordance with Chalieco's accounting policies. Looking forward into 2021, Chalieco will focus on both reform and development and risk prevention and control, maintain a leading position in technology through innovation, carry out value management to comprehensively benchmark against market leaders, and apply corporate governance in accordance with law for proper business operations. RMB58 billion of new contracts are expected to be signed.

The Group believes Chalieco will vitalise the impetus for high-quality development with solidarity and is therefore optimistic about the future prospect of the bond issued by Chalieco HK.

4. On 2 March 2020, the Group invested in a subordinated perpetual capital bond issued by FWD LIMITED (together with its subsidiaries, "FWD") with a nominal amount of US$1,500,000 at a consideration of US$1,553,000 (equivalent to approximately RMB10.8 million). The bond has a coupon interest rate of 6.25% per annum without fixed maturity date.

   FWD, the issuer of the bond, comprises life insurance, general insurance, employee benefits and financial planning businesses in Hong Kong and Macau, including the ninth largest life insurance company in Hong Kong on an Annual Premium Equivalent ("APE", a common measure of new business sales in the life insurance industry) basis as of 30 June 2016 (according to Hong Kong Office of the Commissioner of Insurance statistics) and the fifth largest life insurance company in Macau on an APE basis as of 30 June 2016 (according to The Monetary Authority of Macau (the primary regulator of the insurance industry in Macau) statistics). The businesses within FWD have operated for 32 years in Hong Kong and for 17 years in Macau. FWD believes it has a strong reputation in each market for delivering innovative products and superior customer service. FWD also benefits from the experience of its shareholders, Richard Li and Swiss Re.

   According to the offering circular of FWD, FWD has always been committed to placing strategic importance on its general insurance business to generate profit and to acquire new customers through undertaking a number of initiatives for establishing corporate brand, including printed and outdoor advertisements (for example, in Hong Kong, display of the Light Emitting Diode (LED) signage at the Excelsior Hotel, advertisements on tram shelters and buses and in Mass Transit Railway (MTR) stations, and a series of printed advertisements and press releases in newspaper and magazines), advertisements on television and through online media as well as face-to-face interactions with FWD's customers. FWD has also undertaken internal measures to increase staff and agent engagement with the new brand.

   The Group believes that FWD's branding efforts have been successful and is therefore optimistic about the future prospect of the bond issued by FWD.

*(C) Convertible Bond*

| Name of the convertible bond | *Note* | Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2020 (RMB'000) | Loss on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2020 (RMB'000) | Fair value as at 31 December 2020 (RMB'000) | Percentage of total FVOCI and FVPL Investments at 31 December 2020 | Percentage of total assets of the Group as at 31 December 2020 |
|---|---|---|---|---|---|---|
| Standard Chartered PLC | 2 | 451 | (310) | – | 0.0% | 0.0% |

Notes:

1. The Group's investment in convertible bond has been accounted for as financial assets at fair value through profit or loss. Please refer to note 21 to the financial statements for details of the investment in convertible bonds.

2. On 6 April 2015, the Group invested in a perpetual convertible bond issued by Standard Chartered PLC, which is listed on the Main Board of the Stock Exchange (Stock Code: 02888) and London, Mumbai stock exchanges, with a nominal amount of US$8,000,000 and a coupon interest rate of 6.5% per annum at a consideration of US$8,101,000 (equivalent to approximately RMB49.7 million). In July and August 2016, the Group sold part of the above perpetual convertible bond with a nominal amount of US$5,000,000 for a consideration of US$4,788,000 (equivalent to approximately RMB31.9 million). In January 2018, the Group sold part of the above perpetual convertible bond with a nominal amount of US$1,000,000 for a consideration of US$1,056,000 (equivalent to approximately RMB6.7 million). On 2 April 2020, the bond with an aggregated nominal amount of US$2,000,000 was fully redeemed by Standard Chartered PLC in advance.

*(D) Bond Fund*

| **Name of the fund** | *Note* | **Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2020** (RMB'000) | **Gain on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2020** (RMB'000) | **Fair value as at 31 December 2020** (RMB'000) | **Percentage of total FVOCI and FVPL Investments as at 31 December 2020** | **Percentage of total assets of the Group as at 31 December 2020** |
|---|---|---|---|---|---|---|
| UBS Asian Bonds Series 5 (USD) ("UBS Asian Bonds") | 2 | 315 | 219 | 10,711 | 7.8% | 1.7% |

Notes:

1. The Group's investment in bond fund, UBS Asian Bonds, has been accounted for as financial assets at fair value through profit or loss. The fair value of the fund represented the net asset value of the sub-fund determined by UBS Asset Management (Singapore) Ltd, as manager (the "Manager") in consultation with HSBC Trustee (Cayman) Limited as trustee (the "Trustee"). Please refer to note 21 to the financial statements for details of the UBS Asian Bonds.

2. On 23 January 2020, the Group invested in 16,000 units of the UBS (CAY) Investment Fund Series – UBS Asian Bonds Series 5 (USD) Class A-qdist (USD) Units (the "Sub-Fund") at the subscription price of US$100 per unit with a consideration of US$1,614,000 (equivalent to approximately RMB11.1 million). The Sub-Fund has a maturity period of 4.5 years and a target yield to maturity of 4.8% to 5.3% per annum, assuming no defaults and is held to maturity.

   UBS (CAY) Investment Fund Series is an open-ended unit trust established under the Trusts Law (as amended) of the Cayman Islands as an umbrella fund by the Trust Deed dated 24 May 2017 between the Manager and the Trustee. The investment objective of the Sub-Fund is to achieve total return by investing primarily in a portfolio of USD-denominated fixed income securities issued by Asia Pacific ex-Japan issuers.

   The Sub-Fund in general take a buy-and-hold to maturity approach, investing in a diversified USD bond portfolio. Given the short maturity of the portfolio, it has relatively low interest risk. Besides, compared to global peers, Asian bonds usually provide higher yields with lower duration risk. Finally, it is operated by a professional Asian fixed maturity funds team consisted of managers with more than 10 years of experiences. The Manager, in general, actively monitors and reviews all the securities in the Sub-Fund's portfolio on a regular basis and takes appropriate action where necessary (including but not limited to re-investing proceeds from securities that have matured prior to the Sub-Fund's maturity date). Therefore, the Group is optimistic about the Sub-Fund operated by the Manager in the future.

*(E) Investment in Life Insurance Policies*

| Name of the investment in life insurance policies | *Note* | Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2020 (RMB'000) | Gain on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2020 (RMB'000) | Fair value as at 31 December 2020 (RMB'000) | Percentage of total FVOCI and FVPL Investments as at 31 December 2020 | Percentage of total assets of the Group as at 31 December 2020 |
|---|---|---|---|---|---|---|
| Investment in life insurance policies | 2 | – | 2,116 | – | 0.0% | 0.0% |

Note:

1. The Group's investment in life insurance policies has been accounted for as financial assets at fair value through profit or loss. Please refer to note 21 to the financial statements for details of the investments in life insurance policies.

2. In August 2015, the Group entered into life insurance policies with the Bermuda branch of The Manufacturers Life Insurance Company ("Manulife") to insure certain members of the key management of the Group. Under these policies, the Company is the beneficiary and policyholder. The Company has paid out the total insurance premium with an aggregate amount of approximately US$14.5 million (equivalent to approximately RMB89.0 million) at the inception of the insurance. On 28 August 2020, the Company, as the policyholder and beneficiary, submitted relevant forms to Manulife for the withdrawal of the life insurance policies at the Surrender Value (after deduction of any policy debt and Surrender Charge). The withdrawal has been approved by the Shareholders at the extraordinary general meeting held on 30 October 2020 and taken effect on 3 November 2020 after all surrender requirements have been received in good order by the Company to Manulife. The Surrender Value of the life insurance policies amounted to an aggregate of US$14.5 million (equivalent to approximately RMB97.0 million) as at 3 November 2020 has been fully received in cash by the Company on 5 November 2020. For details, please refer to the Company's announcement dated 28 August 2020, circular dated 12 October 2020, poll results announcement dated 30 October 2020 and completion announcement dated 5 November 2020.

*(F) Unlisted Equity Investments*

| Company Name | *Notes* | Percentage of shareholdings as at 31 December 2020 | Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the year ended 31 December 2020 (RMB'000) | Fair value as as at 31 December 2020 (RMB'000) | Percentage of total FVOCI and FVPL investments as at 31 December 2020 | Percentage of the total assets of the Group as at 31 December 2020 |
|---|---|---|---|---|---|---|
| Xiamen eName Technology Co., Ltd. ("eName") | *2* | 2.0% | 5,180 | 22,181 | 16.1% | 3.5% |
| Xiamen Relian Tianxia Technology Co., Ltd. ("Xiamen Relian") | *3* | 10.0% | 265 | 10,265 | 7.4% | 1.6% |
| Others | *4* | – | (789) | 5,266 | 3.8% | 0.8% |

Notes:

1. The Group's unlisted equity investments have been accounted for as equity investments designated at fair value through other comprehensive income. The fair value of the unlisted equity investments was assessed by management or employed by other available methods.

2. eName is a company listed on China New Third Board (Stock Code: 838413) principally engaged in domain related businesses and providing domain registration, transfer and transaction services for internet customers. It is a well-known domain service provider in China.

   Pursuant to eName's interim report for the six months ended 30 June 2020, eName recorded revenue of approximately RMB80.9 million, representing a year-over-year increase of 19.4% compared with the corresponding period in 2019, and net profit after tax of approximately RMB6.7 million, compared with net loss after tax of approximately RMB73,000 for the six months ended 30 June 2019. eName has established a leading position in the domain transaction and service industry through mature technical support, convenient transaction procedure and humanized service management. Since 2019, eName has actively increased promotional efforts and successfully maintained its transactions despite of the gloomy industry environment. eName also adhered to expand its domain name business and applied itself to undertake purchase service for large scale enterprise customers. Besides, trademark transaction became profitable owing to national preferential policy, which also made a great contribution to the sharp increase of its net profit.

   The Group is optimistic about the domain service market in China and the performance of eName in the future.

3. Xiamen Relian is an unlisted company which principally engaged in the sale of merchandise through intelligent vending machines and is managed by an experienced technical team.

   The Company believes that there are significant opportunities in the self-service sector. On 22 June 2020, the Company, through Kailuo Tianxia (the Company's indirect wholly-owned subsidiary), entered into an agreement to make an investment of RMB10.0 million into Xiamen Relian. With the closing of the investment, the Company owns a 10% equity stake in Xiamen Relian. As at 31 December 2020, RMB5.0 million had been paid.

   In view that the growing demand for intelligent vending machines from the retail industry will offer immense growth opportunities and that intelligent vending machines could also be expected to form an extensive sales and distribution network to reach intelligent products consumers, the Group considers that the future business prospect of Xiamen Relian is positive.

4. Others comprised two unlisted limited liability companies and none of these investments accounted for more than 0.7% of the total assets of the Group as at 31 December 2020.

*(G) Unlisted Debt Investments*

| **Company Name** | *Notes* | **Percentage of shareholdings as at 31 December 2020** | **Gain on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2020** (RMB'000) | **Fair value as at 31 December 2020** (RMB'000) | **Percentage of total FVOCI and FVPL investments as at 31 December 2020** | **Percentage of the total assets of the Group as at 31 December 2020** |
|---|---|---|---|---|---|---|
| Future Capital Discovery Fund II, L.P. ("Future Capital") | *2* | 1.8797% | 13,361 | 29,206 | 21.2% | 4.6% |
| Others | *3* | – | 4,804 | 8,076 | 5.9% | 1.3% |

Notes:

1. The Group's unlisted debt investments have been accounted for as financial assets at fair value through profit or loss. The fair value of the unlisted debt investments was assessed by management or employed by other available methods.

2. Future Capital is an unlisted limited partnership principally engaged in investment in companies which are primarily in the sectors of intelligent system, auto system and information technology to achieve earnings in the form of medium to long term capital appreciation.

   Pursuant to Future Capital's financial statements for the year ended 31 December 2020, Future Capital recorded income of approximately US$4,000 and net increase in partners' capital resulting from operations of approximately US$145.7 million. The substantial increase in partners' capital resulting from operations was primarily due to an increase in fair value changes on one of Future Capital's investments which became listed during the year ended 31 December 2020. Future Capital expected to realise its investments at a later stage in order to enjoy a higher capital appreciation.

   The Group believes that Future Capital has sufficient capital and is managed by an experienced management team and the sectors it invests in have positive future and its future business prospect is positive and is expected to grow continuously.

3. Others comprised two unlisted debt investments and none of these investments accounted for more than 0.9% of the total assets of the Group as at 31 December 2020.

There was no impairment made for any investments in debt instruments for the year ended 31 December 2020. Investments in equity instruments did not involve any separate impairment accounting under IFRS 9 – Financial Instruments.

**Other significant investments held, significant acquisitions and disposal of subsidiaries, associates and joint ventures and future plans for material investments or capital assets**

Save as disclosed in this annual report, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates and joint ventures for the year ended 31 December 2020. Apart from those disclosed in this annual report, there was no plan authorised by the Board for other significant investment or acquisition of major capital assets or other businesses in 2021. However, the Group will continue to identify new opportunities for business development.

**Gearing ratio**

On the basis of total liabilities divided by total assets, the Group's gearing ratio was 22.9% as at 31 December 2020 and 30.2% as at 31 December 2019.

**Capital expenditures**

The following table sets forth the Group's capital expenditures for the year ended 31 December 2020 and 2019:

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2020 (RMB'000)** | 2019 (RMB'000) | **Change%** |
| Property, plant and equipment | **1,436** | 1,495 | (3.9) |
| Construction in progress | **18,282** | 49,123 | (62.8) |
| **Total** | **19,718** | 50,618 | (61.0) |

Capital expenditures consisted of property, plant and equipment and construction in progress, of which the former include but are not limited to, office equipment, company vehicles for employees' use and leasehold improvements. The total capital expenditures for the year ended 31 December 2020 were approximately RMB19.7 million, compared with RMB50.6 million for the year ended 31 December 2019, representing a decrease of approximately 61.0%, which was primarily due to a decrease in construction costs for the Company's R&D centre and headquarters building in Xiamen, the PRC, from approximately RMB49.1 million for the year ended 31 December 2019, to approximately RMB18.3 million for the year ended 31 December 2020. The decrease in construction costs was primarily attributable to the delay in construction caused by the COVID-19 pandemic and the delay in completion acceptance process.

**Pledge of Assets**

As at 31 December 2020, bank loans of approximately RMB63.8 million (under a loan facility of up to RMB120.0 million) were used for the construction of the Company's R&D center, which were secured by land use rights and construction-in-progress on the Land with a total carrying value of approximately RMB224.3 million.

**Contingent liabilities and guarantees**

As at 31 December 2020, the Company did not have any unrecorded significant contingent liabilities, guarantees or litigation with claims against it.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Company had 432 full-time employees, the majority of whom are based in Xiamen, the PRC. The following table sets forth the number of employees categorised by function as at 31 December 2020:

| | Number of Employees | % of Total |
|---|---|---|
| Development | 260 | 60.2 |
| Operations | 84 | 19.4 |
| Administration | 81 | 18.8 |
| Sales and marketing | 7 | 1.6 |
| **Total** | 432 | 100.0 |

The remuneration of the Group's employees is determined based on their performance, experience, competence and market comparables. Their remuneration package includes salaries, bonuses related to the Group's performance, allowances, equity settled share-based payments and state-managed retirement benefit schemes for employees in the PRC. The Company also provides customised training to its staff to enhance their technical and product knowledge.

The remuneration of Directors and members of the senior management is determined on the basis of each individual's responsibilities, qualifications, position, experience, performance, seniority and time devoted to the Group's business. They receive compensation in the form of salaries, bonuses, share options, RSUs, and other allowances and benefits-in-kind, including the Company's contribution to their pension scheme on their behalf. The remuneration policy of the Directors and the senior management is reviewed by the Remuneration Committee and approved by the Board.

In addition, the Group has currently adopted a Post-IPO Share Option Scheme and RSU Plan II as long-term incentive schemes.

**Foreign currency risk**

For the year ended 31 December 2020, the Group did not encounter significant foreign currency risk from its operations and did not hedge against any fluctuation in foreign currency.

**Interest rate risk**

Other than interest-bearing bank deposits and bank loans, the Group has no other significant interest-bearing assets or liabilities. The Directors do not anticipate any significant impact on the interest-bearing bank deposits resulting from changes in interest rates, because the bank deposit interest rates are not expected to change significantly. In addition, the Directors do not anticipate any significant impact on the bank loans resulting from changes in interest rates, because the interest rates are primarily determined with reference to the loan prime rate as at the drawdown date, which have a low likelihood of wide fluctuation in the short run. Therefore, the Group has not adopted any hedging policy to mitigate interest rate risk. However, the Group will continue to monitor the long-term interest rate fluctuations in the market and take appropriate actions to minimise interest rate risk.

**Use of Net Proceeds from Listing**

The net proceeds from the Global Offering were approximately HK$585.0 million (equivalent to approximately RMB463.2 million) after deducting underwriting fees and commissions, and related total expenses paid and payable by the Company in connection with the Listing.

The following table sets forth the use of net proceeds from the Global Offering:

| | Net Proceeds from Global Offering | | | |
|---|---|---|---|---|
| | **Available to utilise** | | **Utilised (up to 31 December 2020)** | **Unused balance** |
| | RMB'000 | Percentage | RMB'000 | RMB'000 |
| Expanding and enhancing game portfolio | 185,281 | 40% | 185,281 | – |
| Expanding marketing and promotion activities | 92,641 | 20% | 92,641 | – |
| Establishing and expanding international operations in selected overseas markets | 69,480 | 15% | 69,480 | – |
| Potential acquisitions of technologies and complimentary online games or business, partnerships and licensing opportunities | 69,480 | 15% | 69,480 | – |
| Supplementing working capital and for other general corporate purposes | 46,320 | 10% | 46,320 | – |
| | 463,202 | 100% | 463,202 | – |

Note: The figures above are approximate figures.

As at 31 December 2020, the Group had utilised all of the net proceeds from the Global Offering as detailed above in accordance with the intended use of net proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

**Corporate Social Responsibility**

The Group has sought to operate in a responsible, transparent and sustainable way. The Group is committed to promoting the long term sustainability of the environment by advocating green office practices such as using double-sided printing and copying, setting up recycling bins, installing energy efficient lighting systems, growing plants in the office and attempting to provide good air quality on company premises, and promoting the use of public transport and video conferencing in replacement of business travel to reduce the carbon footprint. The Group also improves employee awareness of environmental protection and encourages them to bring their own plants to make the office greener.

The Group has adopted a 3Rs strategy for waste management: Reduce, Reuse and Recycle, such as installing an efficient water flushing system in the restrooms and performing regular checks to prevent leakages.

The Group is determined to review and improve its policies and practices related to environmental protection from time to time to continuously contribute to making the earth a better planet.

The Group has also been committed to enhancing its contribution to local communities by participating in community services, supporting people in need and sponsoring educational activities. In addition, the Group also encourages its employees at all levels to participate in the aforementioned activities by way of a charity bazaar. The Group will continue to invest in social activities to develop a better future for its community.

**Compliance with Relevant Laws and Regulations**

To the best of the Directors' knowledge, information and belief, as at the date of this annual report, the Company has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

In relation to game development and operation, the Company is committed to complying with the laws and regulations such as The Interim Measures for the Administration of Online Games (Amended in 2017), the Copyright Law of the PRC (2010 Amendment), Online Publishing Service Management Rules (2016), Anti-addiction Notice (2007), Provisions on Ecological Governance of Network Information Content (2019), Notice Regarding Commencement of Authentication of Real Names for Anti-addiction System on Online Games and Notice by the General Administration of Press and Publication of Preventing Minors from Indulging in Online Games.

In addition, as a company listed on the Main Board of the Stock Exchange, the Company is subject to, among others, the requirements under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Companies Ordinance"), the Listing Rules, the Takeovers Code, and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"). Any changes in the applicable laws and regulations are brought to the attention of the relevant departments from time to time.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

**Reporting Period and Scope**

It is the pleasure for Feiyu Technology International Company Limited ("Feiyu", the "Company", the "Group", "we" or "us") to present the Environmental, Social and Governance ("ESG") Report ("the ESG Report") for the year of 2020 to our stakeholders. Unless otherwise stated, this Report showcases the analysis of results for data collected based on environmental and social factors, for the period from 1 January to 31 December 2020 (the "Year" or "Reporting Period").

The ESG Report allows its stakeholders to gain an understanding of the effectiveness of our strategies, management approach and performance on sustainability. By focusing on environmental and social aspects of the Group, we are committed to safeguarding our environment, being socially responsible and maintaining stringent and impartial corporate governance in our daily operations. As compared with Year 2019, the reporting scope is the same. It covered the Company and all of its subsidiaries.

**Reporting Standard**

The Group has followed the disclosure requirements of the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited while preparing the ESG Report. For information regarding our corporate governance performance, please refer to the section "Corporate Governance Report" in our Annual Report 2020.

**Gathering Feedback**

Receiving valuable feedback from stakeholders assists the Group in better developing our approach in environmental, social and governance sectors in the next reporting year. Please provide us your comments or suggestions via e-mail to IR@feiyu.com.

## ABOUT FEIYU

**Business Overview**

As an outstanding developer in the mobile and web game industry in mainland China, Feiyu is devoted to promoting our company motto in being "Marvellously Creative with Simple Way" (用簡單創造精彩). However, due to the unexpected outbreak of coronavirus ("COVID-19") since the beginning of 2020, it brought mixed results to our plan in game development. During the Reporting Period, with an increase in demand for online gaming due to China's national lockdown, the Company invested more time and resources to enhance the quality of the sequel of more popular games. At the same time, we had successfully launched two new games to satisfy our current market and also aim to attract new users. Apart from our iconic gaming product series such as "Shen Xian Dao (神仙道)", "Carrot Fantasy (保衛蘿蔔)" series, "San Guo Zhi Ren (三國之刃)" and "Super Phantom Cat (超級幻影貓)", the two new games include "Neon Abyss (霓虹深淵)" and "Kaki Raid (咔嘰探險隊)" which had made their debut in July 2020. To align with Feiyu's mission "To Better the Virtual World"(讓虛擬世界更美好), we will continue to strive to understand the expectations and interests of our players, so as to decide on our business direction and promote a healthy virtual gaming environment for them.

**Awards and Recognitions**

| Awards | | Certificates | Research and Development |
|---|---|---|---|
| Horcrux College (魂器學院) | • Meizu Year-end Ceremony – Best Two-dimensional Game ("魅族年終盛典－最佳二次元遊戲") | • China's High and New Technology Enterprise (中國高新技術企業)<br>• Software Enterprise and Software Product Assessment (軟件企業雙軟評估) | • 10 newly applied software copyrights<br>• 1 newly obtained patent<br>• 10 newly obtained trademark licensing |
| Shen Xian Dao (神仙道) | • Recognition of Xiamen High-tech Achievement Transformation Project in 2019 ("2019年度廈門市高新技術成果轉化項目認定") | | |
| Kaki Raid (咔嘰探險隊) | • The Best Game with Spark from the OPPO Developer Conference ("OPPO開發者大会最佳星火遊戲") | | |

## THE MILESTONES OF FEIYU

- 2011 May Shen Xian Dao (神仙道) launched
- 2012 July Carrot Fantasy (保衛蘿蔔) launched
- 2013 November Carrot Fantasy 2 (保衛蘿蔔2) launched
- 2014 August San Guo Zhi Ren (三國之刃) launched
- 2016 January Super Phantom Cat (超級幻影貓) launched
- 2017 January Push Heroes (推拉英雄) launched
- 2017 June Eat Fatty (你胖你先吃) launched
- 2017 August Super Phantom Cat 2 (超級幻影貓2) launched
- 2017 September Sprites Legend (靈妖記－神仙道外傳) launched
- 2017 November I Am The Hero (英雄就是我) launched
- 2018 August Demon Tower (魔界塔) launched
- 2019 February Peace in Chang An (天下長安) launched
- 2019 October Horcrux College (魂器學院) launched

- **2020 July Neon Abyss (霓虹深淵) launched**
- **2020 July Kaki Raid (咔嘰探險隊) launched**

## ESG RISK MANAGEMENT

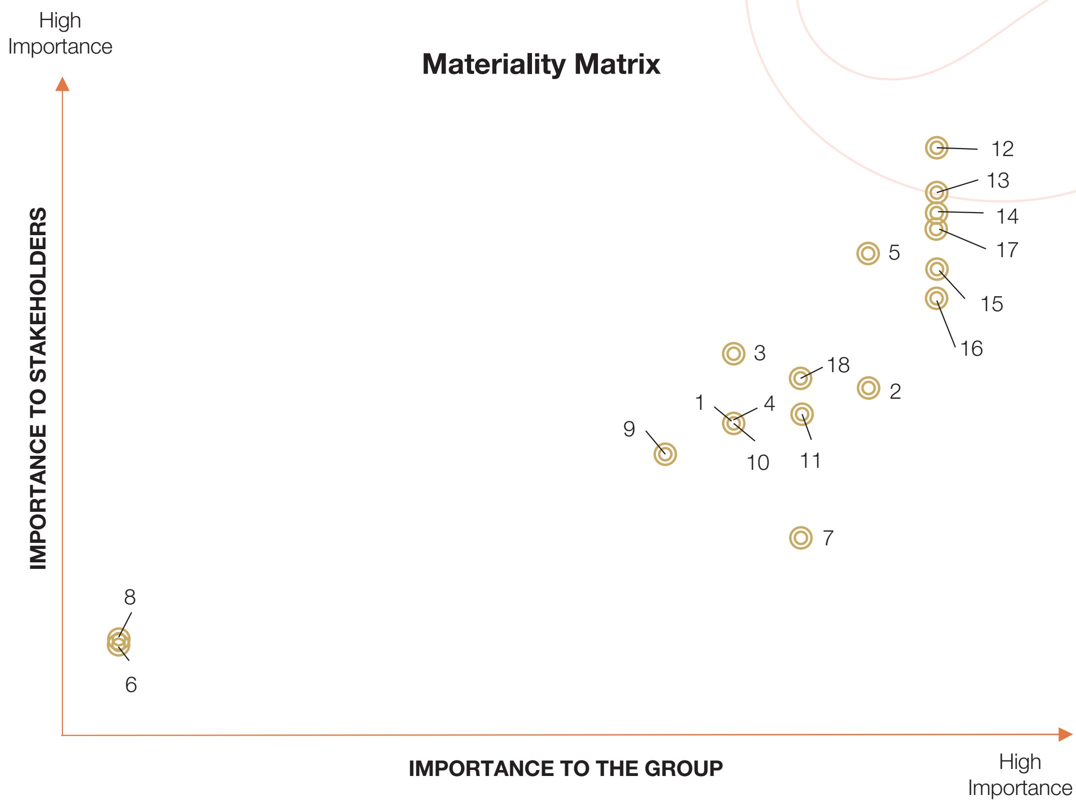
The Board acknowledges the need to take full responsibility over the Group's strategy and to manage its ESG risks and internal control systems. By diagnosing potential ESG issues which may have material impact on the Group's sustainability development, we hope to be capable of formulating effective solutions in addressing these issues and incorporating these issues into our daily operations. Therefore, conducting stakeholder engagement is one of the most convincing methods to develop our sustainability plan.

## MAINTAINING COMMUNICATIONS WITH OUR STAKEHOLDERS

By identifying our stakeholders into different categories, we look forward to maintaining close communications with them and allowing them to provide feedback to us, so that the Group can introduce effective solutions in enhancing its sustainability performance. Our key stakeholders include employees, players/customers, shareholders/investors, suppliers, business partners, government and the community. The Group offers various platforms such as Feiyu's official WeChat page, QQ communication software, Weibo social media page and online forums etc. for our stakeholders to contact us. They are greatly encouraged to provide suggestions towards the Group regarding game development ability, health and safety of gaming etc. Feedbacks taken not only can influence the Group's management decisions, but will also help to create a better gaming experience that will benefit themselves in the future.

**Stakeholder Engagement and Materiality Assessment**

For the Year, we have indicated 18 sustainability issues and included them into our stakeholder survey. The survey conducted was useful for the Group to review its business objectives and development direction to ensure that they align with stakeholders' expectations and requirements. The matrix which represented the feedback collected from the stakeholders is shown in the following:




| The Quality of Workplace Environment | Environmental Protection and Green Operations | Operational Practices | Business Operations | Contribution to Society |
|---|---|---|---|---|
| 1. Equality, diversification and anti-discrimination | 6. Emission management | 10. Supplier management | 12. Game creativity and development ability | 17. Intellectual property |
| 2. Occupational health and safety | 7. Resource management | 11. Anti-corruption | 13. Quality, health and safety of gaming | 18. Community contributions |
| 3. Training and development | 8. Waste handling | | 14. Protection of player's data | |
| 4. Anti-child and forced labour | 9. Supplier management of environmental and social risks | | 15. Handling of player's complaint | |
| 5. Employee benefits | | | 16. Player's satisfaction level | |

As shown in the matrix, the top-right hand corner shows sustainability issues which are more material to both the Group and its stakeholders. Performance related to these material aspects would also be addressed in the upcoming sections of this ESG Report.

| ESG Categories | Material Aspects | Section |
|---|---|---|
| The Quality of Workplace Environment | 5. Employee benefits | • Discovering the Best Talents<br>• Provide a Safe Work Place and Strive for Work-life Balance<br>• Training and Development |
| Business Operations | 12. Game creativity and development ability<br>13. Quality, health and safety of gaming<br>14. Protection of player's data<br>15. Handling of player's complaint<br>16. Player's satisfaction level | • Investment in Creativity<br>• Our Control Over the Health and Safety of Game Players and Game Quality<br>• Protect Personal Data Privacy<br>• Players' Satisfaction |
| Contribution to Society | 17. Intellectual property | • Intellectual Property Rights |

# Sustainable
# FEIYU

air Employer, Great Place to Work

nvironmentally Friendly

nvestment in Creativity

outh Support and Giving Back to our Society

ndertake Responsibilities

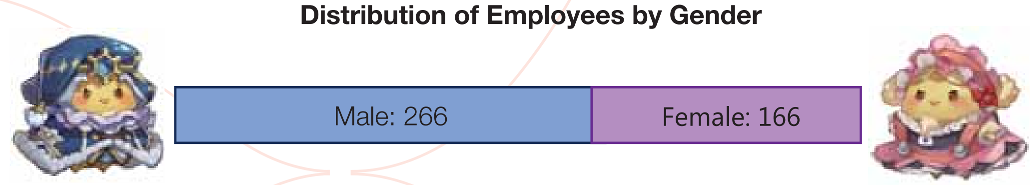
## FEIYU AS A GREAT WORK PLACE FOR OUR EMPLOYEES

We understand that we should take up the responsibility in cultivating our employees as the pillars of the Group's sustainable development since their contributions can lead to the continuing success of Feiyu. Therefore, we are dedicated to recruiting outstanding talents who are enthusiastic in developing their career in the industry, or employees who are imaginative, knowledgeable and experienced.

In order to provide a working environment which promotes fairness and equality, we conduct regular reviews on our compliance towards relevant labour laws and regulations in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare. Applicable legislation and requirements include, the Labour Law of the People's Republic of China ("PRC") (《中華人民共和國勞動法》), Prohibition of Using Child Labour (《禁止使用童工規定》) and 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》).

**Employee Overview**

**Distribution of Employees by Gender**



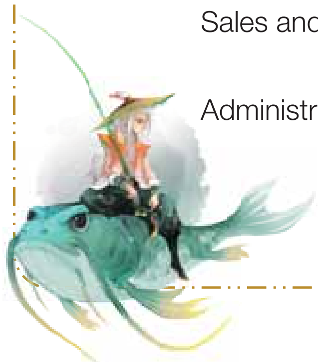

**Distribution of Employees by Job Type**

Development **60.2%**

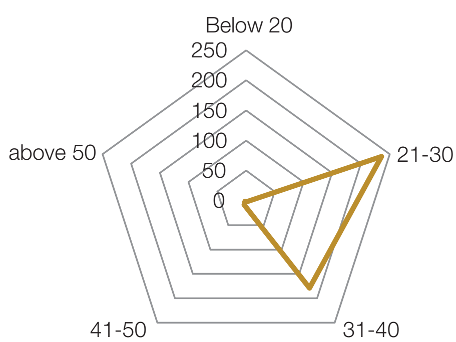
Operations **19.4%**

Sales and Marketing **1.6%**

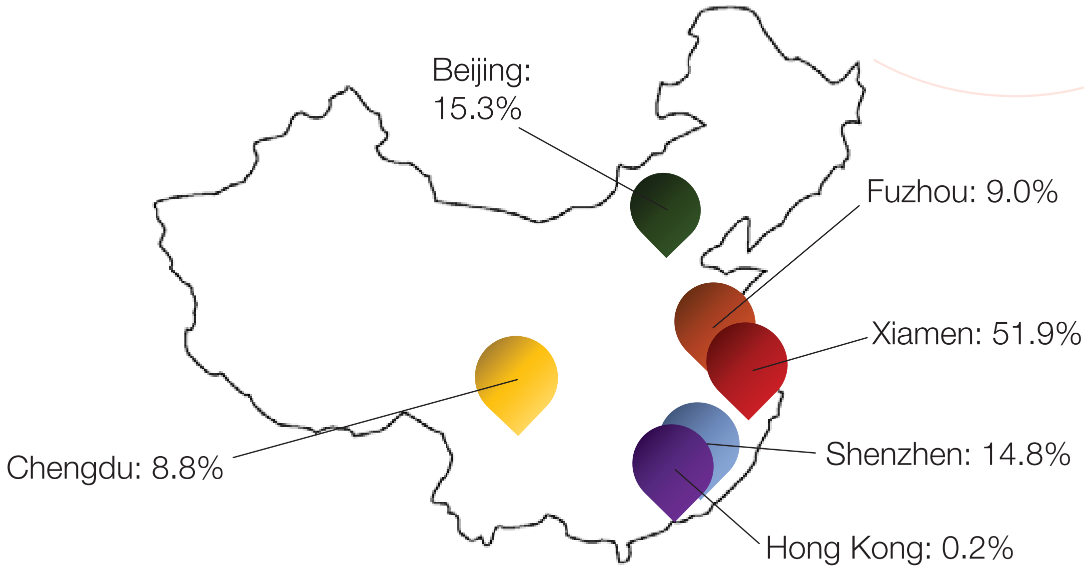
Administration **18.8%**



**Distribution of Employees by Age**



**Distribution of Employees by Location**




**Discovering the Best Talents**

Feiyu is willing to invest in our employees and provide them with rewarding career paths as they transform themselves into members of Feiyu's management level in the future. To recruit and reach out to the most suitable talents, we offer a selection of recruitment channels, such as internet recruitment, campus recruitment, job fairs and headhunting companies. Potential candidates will be selected by our Human Resources Department for in-person interviews, written tests, aptitude tests and scenario tests. Successful candidates will be offered attractive remuneration packages which are comparable to our peers in the industry. Our remuneration packages include five-day work week, paid annual leave, discretionary bonus, mandatory provident fund scheme, social insurance, transportation allowance, training subsidies and long serving employees' awards.

As an equal opportunity employer, we are committed to building a working environment with diversity. Therefore, we hire employees regardless of their age, gender, nationality, race, family status, and hold zero tolerance towards discrimination, harassment or abuse of any types in order to safeguard the rights of our employees.

During the Year, the Group was in strict compliance with, and was not aware of any significant violations or non-compliance cases which were related to, relevant laws and regulations including the Labour Law of the PRC (《中華人民共和國勞動法》) on areas involved with compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfares.

**Provide a Safe Work Place and Strive for Work-life Balance**

We believe one of the key factors to achieving sustainable development is to strive for work-life balance and pay attention to our employees' health and safety, hence we could meet employees' expectations and build employees' loyalty towards Feiyu in the long run. Although the pandemic of COVID-19 had prevented us from holding yoga classes in order to maintain social distancing, we managed to set up a series of other occupational health and safety measures to protect our employees' physical and mental health, and enhance their social well-being. Some of these measures include:


Whereas to recognize and express our gratitude towards our employees for their unfailing support to Feiyu, during the Year, we had organized various internal events for them to enjoy and also created opportunities for them to deepen their bonding across departments.

Women's Day Celebration


Feiyu Walking Challenge

Children's Day Celebration

Feiyu's 12th Anniversary Celebration



Dragon Boat Festival Gift

During the Year, the Group was not aware of any violation or cases of work injury or deaths. We stringently abided by 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》) and other relevant laws and regulations.

**Training and Development**

The Group sees the annual appraisal not only as a process to document the performance of employees, but also a precious opportunity to devise their working plans and targets for the coming year. To promote the growth and development of employees, we have provided employees with internal training courses of various aspects such as game design, production, art and programming during the Year.

The Group attaches great importance to encouraging innovation, offers a creative and conducive work environment that promotes learning and growth, and strives to maximise employees' potential and help them achieve their goals. The Group believes providing quality trainings can help to equip our employees with the latest knowledge of the mobile and web game industry. During the Year, we have offered various trainings relating to game design, production, art, programming to our employees.

Our categories of trainings include:

| Categories of Trainings | Training Topics | | | |
|---|---|---|---|---|
| Management training | Training for newly promoted management | Leadership training | Management by objective | Updates on listing requirements |
| Professional training | Productional training in building online games | Research and development skills | Inspiration on game designs | Case study sharing about the mobile and web game industry |
| New employees' training | Introduction of Feiyu to new employees | Basic training | | Fresh Feiyu Program (魚苗計劃) |

During the Reporting Period, we had a total of over 600 training hours conducted for our employees.

**Labour Standards**

We strictly abided by the local laws and regulations such as the Law of Mainland China on the Protection of Minors (《中華人民共和國未成年人保護法》) and the Prohibition of Using Child Labour (《禁止使用童工規定》). Prior to the confirmation of appointment, we will verify the identity of candidates to ensure that they are lawfully employable and have reached the legal working age as stipulated in the Prohibition of Using Child Labour of the PRC. Employees are required to enter into an employment contract which contains information regarding working hour, his/her benefits and rights on termination to prevent any forms of forced labour. Upon receipt of letters of resignation, payment of the outstanding wages will be made on time. As for our suppliers, we also expect them to follow our policies and standards strictly as required.

During the Reporting Period, the Group was not aware of any non-compliance cases which have offended the aforementioned rules and regulations regarding to child or forced labour.

## PROTECTING OUR ENVIRONMENT[1]

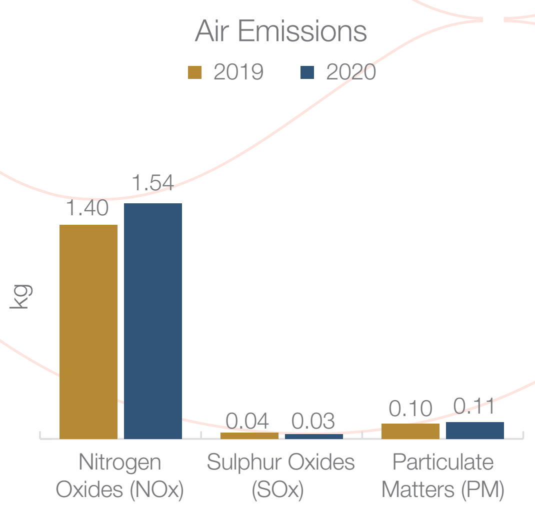
As a mobile and web game developer, we require our employees to mainly work under an office environment. We were not involved in any manufacturing business model nor any processing of raw materials and production of packaging materials. Therefore, the Group does not have a significant contribution in creating a negative impact to the environment and natural resources.

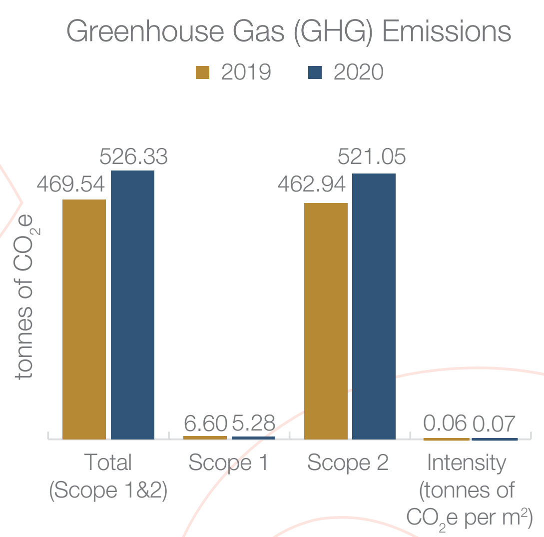
Even though we do not produce material air or hazardous waste emissions, or have any discharges into water and land, we notice the problem about climate change has been a global concern for all types of businesses. Apart from strictly complying with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Feiyu has invested resources to reduce the production of air, greenhouse gas and waste emissions. We implemented relevant measures aiming to change our employees' daily habits at work, so as to encourage them to follow our guidelines and have them involved in building a more environmentally friendly workplace with us in Feiyu.

### Reducing Emissions

*Air and Greenhouse Gas Emissions*[2]

As a game company which is mainly engaged in the business of mobile and web game developer, our indirect greenhouse gas ("GHG") emissions are mainly attributable to the purchased electricity consumption associated with maintaining our equipment's operation and petrol used by vehicles. The comparison figures on the emission of air and greenhouse gas[3] during the Year can be referred to as follows:




1 Since the consumption data of purchased electricity and water of Xiamen Kailuo Tianxia Information Technology Company Limited (廈門凱羅天下信息科技有限公司) was managed by its management office, it is not feasible for the Group to include such information for the Year.

2 According to the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) issued by World Business Council For Sustainable Development and World Resources Institute, scope 1 direct emissions cover GHG emissions directly produced by businesses owned or controlled by the Group, while scope 2 indirect emissions cover GHG emissions of "indirect energy" resulted from electricity (purchased or acquired), thermal energy, refrigeration and steam internally consumed by the Group.

3 With reference to the emission factors for Mainland China based operations newly supplemented in "How to prepare an ESG report" published by The Stock Exchange of Hong Kong Limited, the scope 2 indirect emission in 2019 has also been restated.

In addition, a few measures which Feiyu has carried out in reducing air and greenhouse gas emissions include:

**Measures in reducing air and greenhouse gas emissions**

1 Encourage our employees to utilize the technologies of video and teleconferencing systems to reduce the amount of emission produced by taking transportations tools for business trips.

2 Employees should prefer taking public transportations instead of driving their own vehicles to work in order to lower their carbon footprint which is a main contributor to global warming and climate change.

3 Especially at our office in Xiamen, employees can take advantage of the public shared bikes to travel to work.

*Waste Emissions*

For Feiyu's daily operation, office activities would produce hazardous wastes from toner cartridges, ink boxes and batteries. We are working together with qualified organizations to ensure these wastes are disposed in a responsible manner. Whereas for non-hazardous wastes such as our office general refuse, our building management is responsible for collecting and handling them. Comparison figures of our waste production are stated in the following:

| | **Unit** | **2020** | **2019** |
|---|---|---|---|
| Total waste produced | tonnes | 59.24 | 53.13 |
| Intensity of total waste produced (per floor area) | $kg/m^2$ | 8.17 | 6.67 |
| Total waste disposed | tonnes | 51.17 | 45.78 |
| Total waste collected for recycling | tonnes | 8.07 | 7.31 |

We also take the initiative to reduce wastes at our best effort by implementing the methods below:

**Measures in reducing wastes**

1 Employees should maintain a good habit in recycling solid wastes, especially for papers. Apart from considering duplex printing and recycling unwanted papers, employees should only print off essential documents and utilize the convenience of electronic communication channels e.g., e-mails and mobility devices.

2 For recycling solid wastes, we also have assigned beverage suppliers to collect their glass bottles.

3 Employees are encouraged to bring their own cutleries and cups for meals and drinks.

During the Year, the Group was not aware of any non-compliance with any local laws and regulations such as the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) which are related to air and greenhouse gas emissions, discharges into water and land and generation of hazardous and non-hazardous waste.

**Saving Resources**

*Energy*

The consumption of electricity from daily office operations and petrol used for motor vehicles were the Group's major source of energy usage during the Year. Comparison figures of our energy consumption are stated in the following:

| | Unit | 2020 | 2019 |
|---|---|---|---|
| Total energy consumption | MWh | 645.93 | 577.36 |
| Intensity of total energy consumption (per floor area) | kWh/m$^2$ | 89.10 | 72.45 |
| Purchased electricity | MWh | 627.86 | 554.75 |
| Unleaded petrol | MWh | 18.07 | 22.61 |

Furthermore, we are proactive in considering effective solutions in increasing the usage of energy efficiency. Such measures include:

**Measures in saving energy**

1 We seek for electrical appliances with energy efficient labels which is also beneficial for the Group to reduce electricity cost apart from saving resources.

2 We provide reminders to employees to ensure they would switch off lights, air-conditioners, computers or any other electronic equipment when they are not in use. We hope our employees can build up good habits in reducing energy consumption.

*Water*[4]

Water consumption is not considered as a material part of the Group's resource usage since we only use water for cleaning and sanitation within the office area and pantries. The relevant consumption figures on water are presented as follows:

| | Unit | 2020 | 2019 |
|---|---|---|---|
| Total water consumption | $m^3$ | 3,586.43 | 3,830.08 |
| Intensity of total water consumption (per floor area) | $m^3/m^2$ | 0.49 | 0.51 |

Even though water has not been extensively used during the operation of Feiyu, we have strictly monitored the usage of water in office and conduct regular inspection to prevent any leakage. In addition, our washrooms have installed dual flush systems, so that our employees can select lower water flow to reduce water wastage after usage.

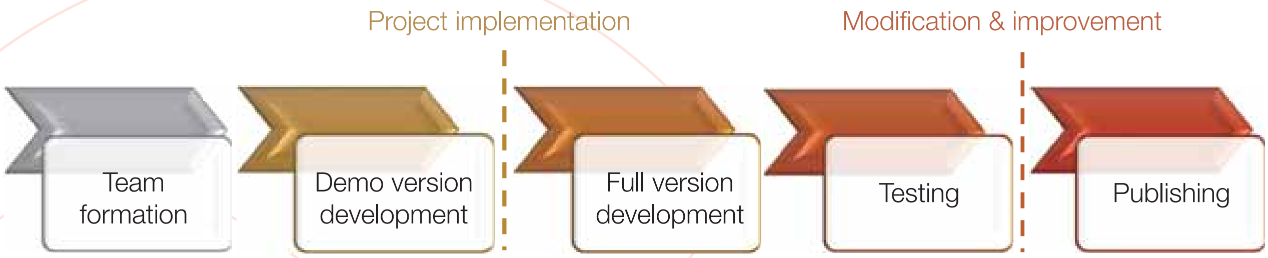
During the Year, since our water are sourced from municipal sources, we did not encounter any issues in sourcing water.

4 Comparing to the reporting period in 2019, as the property management office was able to separate the data of water consumption for Xiamen Veewo Games Co., Ltd. (廈門微沃時刻科技有限公司) for the Year, therefore the data of water consumption is also included in this ESG Report.

## INVESTMENT IN CREATIVITY

The Group believes the popularity of our products in the mobile and web game industry can be attributed to the innovations and contributions from our talents. We are willing to invest in the research and development process in order to strive for continuous innovation and creating games of the highest quality.

Embracing the corporate spirit of "Marvellously Creative with Simple Way" (用簡單創造精彩), Feiyu has an organized structure over the game development process, so that our employees can submit their final products by referring to the guidelines and we can also ensure the quality of submissions are standardized and consistent with one another. The following illustrates our standard procedures during a game development process:




Feiyu has been active in seeking opportunities in producing high quality gaming products to our players. Given the occurrence of COVID-19 during the Year, we had unfortunately put a halt on our annual event – Feiyu 48-Hour Game Making Challenge in order to maintain social distancing and protect the health of our employees. However, the progress of our product development was not affected in a significant way. Apart from owning over 300 software copyrights, over 20 patents and over 150 artworks and music copyrights, Feiyu also possesses over 50 published mobile, web games, PC games, console games and HTML5 games. Among these games, 2 of them including "Neon Abyss" (霓虹深淵) and "Kaki Raid" (咔嘰探險隊) were our newest creations and had gained a certain level of popularity once they had debuted.

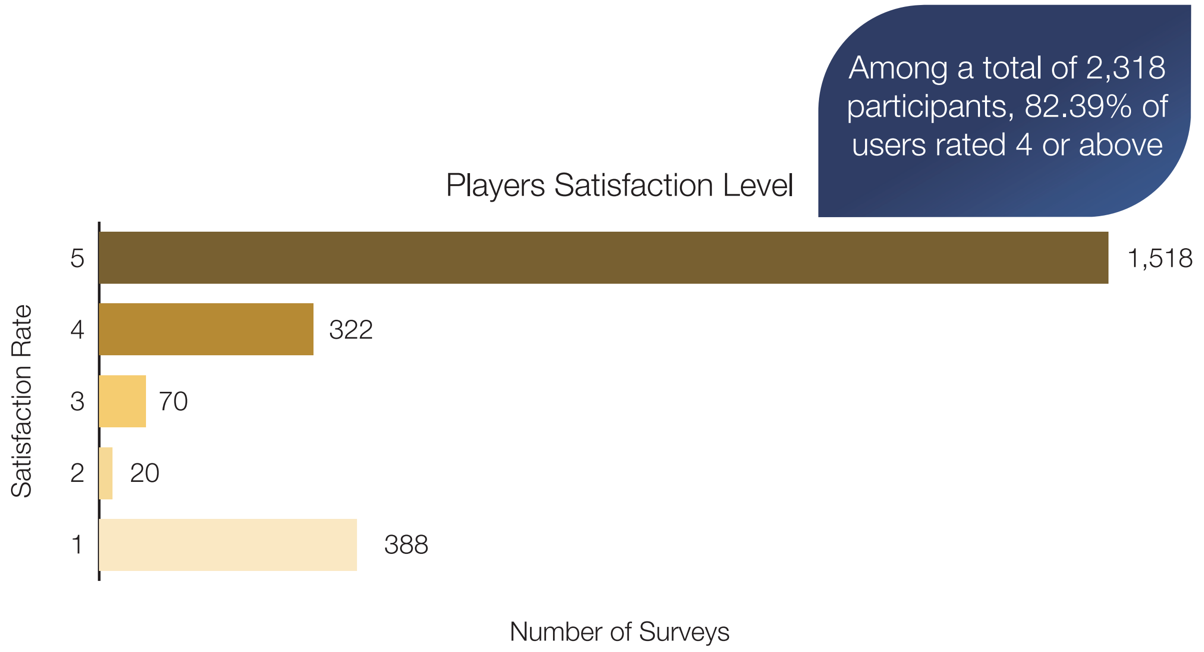

Kaki Raid (咔嘰探險隊)


Neon Abyss (霓虹深淵)

**Players' Satisfaction**

Feiyu strives to provide the best products and services to our players so that they can enjoy a pleasant experience in the virtual world that we built. We offer all-rounded customer services to fulfil players' expectations and build their loyalty to our brand. Our players can reach our customer service team 24 hours daily through a wide range of online and offline channels which include online forum, customer service hotline, mailbox and instant chat rooms in games. For less urgent cases, players can always contact us through our Weibo and WeChat official accounts for further assistance. Our customer service team is required to handle players' inquiries in a punctual and professional manner. We believe offering our best service is a key factor in remaining competitive in the industry.

We conduct regular customer satisfaction surveys via QQ which can help us to generate survey results automatically. During the Year, we have invited a significant number of players to provide their feedbacks and rate their satisfaction level in relation to the quality of our customer service from 1 (very unsatisfied) to 5 (very satisfied).




## YOUTH SUPPORT AND GIVING BACK TO OUR SOCIETY

The Group regards public welfare as a substantial part in maintaining a positive corporate culture. During the pandemic of COVID-19, we realize the importance of giving back to our society at our best effort.

**Donation for the Relief of COVID-19 Pandemic**

In the midst of COVID-19 spreading globally, players have more time to stay at home, which had increased their daily usage of our games. In view of this, we would like to give back to our society and express our gratitude to the community. During the Year, we held an anti-epidemic fundraising event, together with Feiyu's budget added in, we raised and made a donation of a total of approximately RMB149,000 in the hope of relieving the COVID-19 pandemic. We had also reached an agreement with a Swedish protective clothing company to supply 750 sets of protective clothing to the medical teams in Xiamen.


Anti-epidemic Fundraising Event


Donation on Protective Clothing

**Feiyu Student Sponsorship Scheme**

The Feiyu Student Sponsorship Scheme is a meaningful programme to students from the Yunnan Province as it is a project for the Group to select 40 high school students who are in their freshman year and financially sponsor their tuition fee for the next 3 years in school until they graduate. This project started back in July, 2017, and students were selected based on their academic performance and financial conditions. Although this Scheme ended in July, 2020, Feiyu believes that this helps to promote a good cause in stating the importance of giving equal opportunities for students to pursue the same level of education regardless of their financial statuses.

## OUR COMMITMENT IN UNDERTAKING RESPONSIBILITIES

**Supply Chain Management**

As a mobile and web game developer, the major suppliers of the Group are service-based suppliers, such as payment vendors, cloud service providers, and internet data centre providers. Our approach in managing our supply chain is executed through the selection of suppliers and the adoption of the "Supplier Code of Conduct" which demonstrates our commitment to responsible procurement. Upon signing the Supplier Code of Conduct, it indicates that our suppliers are willing to cooperate with us in achieving the target in promoting social and environmental sustainability. Our Supplier Code of Conduct outlines policies regarding anti-corruption, product and service quality, environmental protection, occupational health and safety etc. for them to follow. In order to reduce carbon footprint due to transportation, all our suppliers are located in mainland China.

For the selection of suppliers, Feiyu follows a set of standard procedures:

| Procedures | Description |
|---|---|
| **1. Supplier Code of Conduct** | ■ Suppliers and business partners should acknowledge our expectations and requirements on areas about:<br>➢ Management structure<br>• Suppliers should maintain risk management policy and complaint handling mechanism<br>➢ Health and safety<br>• Suppliers' working environment should comply with local laws and regulations, with a thorough coverage on topics related to contingency measures in case employees' health and safety will be at risk, supply and training of using personal protective equipment at work etc<br>➢ Human Resources<br>• Protecting the human rights of employees. Ensure that the employment procedures, working hours and employee benefits comply with local laws and regulations<br>➢ Environmental protection<br>• The business operation shall align with local laws and regulations. Suppliers should reduce the production of waste and avoid environmental contamination at their best effort<br>➢ Responsibility, transparency and business ethics<br>• Any events of fraud and bribery are strictly prohibited |

| Procedures | Description |
|---|---|
| **2. Supplier Assessment** | ■ We will evaluate the following factors and select those suppliers and business partners who can meet our standards:<br>➢ Production ability<br>➢ Quality assurance<br>➢ Payment requirement<br>➢ After-sales service<br>➢ Specialty of products |
| **3. Site Inspection** | ■ Site visits are conducted to inspect the working environment and procedures of suppliers |
| **4. Follow Up** | ■ Regular feedbacks are given to suppliers for product and service quality enhancement<br><br>■ If the suppliers failed to meet our contract requirements for two times or more, we may stop cooperating with them and seek for new suppliers as soon as possible to avoid any disruptions or delays in providing Feiyu's products to our customers. |

## OUR CONTROL OVER THE HEALTH AND SAFETY OF GAME PLAYERS AND GAME QUALITY

Paying attention to the players' health is our social responsibility in the mobile and web game industry. We deliver health and safety messages to our players in games and suggest taking rest after playing for a certain period of time. We tend to encourage our players to enjoy our games rather than become addicted to them. The Group strictly complies with the Standards Regarding the Development of Anti-addiction System on Online Games of the State and actively guides adolescent players to cultivate a green habit of game playing. In addition, to comply with the Mainland China's Implementation on Preventing Minors Being Addicted to Online Games (《關於防止未成年人沉迷網絡遊戲的通知》), we have applied the following measures to control players' gaming activities:

1 Our online games require real-name registrations for all players in order to keep track of the amount of time and top-up account activities which belong to underaged players.

2 For underaged players, gaming time is limited. Top-up limits are also set up for their user accounts to prevent them from being overly addicted to our games.

3 Health and safety messages are also set up in our games and on our websites as a reminder for players to do some stretching to avoid over-straining their eye muscles and prevent them from focusing on our games for too long.

During the Year, we did not receive any cases which had violated any laws or regulations which had caused damage on the health and safety of our players.

Whereas for controlling the quality of our games, the Group invests a great amount of effort during the testing procedure of our business development process. We perform 2 sets of testing, in which the entire testing procedure takes around 3 months to complete. Such testing includes time domain reflectometry ("TDR") tests, technical docking, basic data tests, product stability tests etc. In addition, as we want to understand the areas of improvement through the perspective of our players, we would invite them to have a first-hand experience and provide us feedbacks afterwards.

## INTELLECTUAL PROPERTY RIGHTS

The Group understands intellectual property rights is part of our valuable intangible assets. Together with a number of original games that contains original characters, settings and audios which were owned by us, we safeguard that our rights are fully protected. Our business development team would conduct thorough research before proceeding with developing new designs, so to prevent being involved in any litigation on plagiarism incidents. Moreover, we strictly comply with the Copyright Law of the PRC (《中華人民共和國著作權法》) and any other relevant laws and regulations. In case of any disputes which are related to the area of intellectual property rights happened, we have our own set of policies (《侵權處理流程》) stating the procedures in handling. Our legal department will also take immediate actions to provide solutions, follow up and reduce the negative impact it could lead to the Group.

## PROTECT PERSONAL DATA PRIVACY

Given the nature of our business, we need to collect and process a large amount of player data such as players' account details and payment information. We take privacy and confidentiality of these data seriously. We have set up the following measures and require our employees to follow strictly and should not violate these rules at any time:

1 Employees cannot access player's information without authorization.

2 Employees have to sign an intellectual property and privacy protection agreement and promise to share responsibility in maintaining strict confidentiality on related information such as, programming codes, animation original files, employee information, players' data etc. These files and information should not be passed to any third parties without authorization.

3 Guidelines on handling confidential information are stated in "Employees' Handbook". Employees can always refer to this handbook in case of any confusion when they are performing their tasks.

4 Server rooms which store sensitive information can only be accessed by authorized personnel and when they enter these rooms every time, they will need to go through fingerprint authorization.

5 To minimize the risk from cyber-attacks, the loss and leakage of data, we have adopted a series of data security measures, such as access authorization, password and data transmission encryption, so that data are stored at least in two different locations on our internal server and further backup is implemented in our disaster recovery system.

During the Year, we were not aware of any complaints received which are related to any breaches of relevant laws in mainland China, such as the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) and the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》),

## ADVERTISING AND LABELLING

Efficient advertising strategies could have a positive impact on our business. On the other hand, controversial or inaccurate content in advertisements prepared by the Group may breach national laws and regulations. We ensure the compliance, accuracy and authenticity of all published materials in accordance with the Advertising Law of the PRC (《中華人民共和國廣告法》) through the review by our legal department.

During the Year, we were not aware of any material cases relating to advertising which had violated the aforementioned law of the PRC. As we do not consume any labelling materials for our products, description of this area is not relevant to our business.

## ANTI-CORRUPTION

Any forms of corruption including extortion, money-laundering, fraud and bribery acts are strictly prohibited in the Group. We have whistle-blowing policies stated in our handbook on corporate culture (《企業文化手冊》) that our employees own responsibilities in building a workplace with probity. Employees can also proactively report to the Group anonymously via e-mail or other forms of communication channels if they have discovered any suspected illegals cases. The Group will take immediate action to investigate in details and refer to relevant departments for follow up. For more serious cases, dismissal, appropriate punishment or legal actions may be undertaken. The identity of the whistle-blower will be kept confidential throughout the entire investigation process.

During the Year, the Group did not identify any corruption cases which are related to Feiyu and its employees. We were not aware of any violation of relevant laws in relation to corruption, extortion, money-laundering, fraud and bribery acts. These laws include but are not limited to: Criminal Law of the PRC (《中華人民共和國刑法》) and the Anti-unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》).

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX

| Subject Areas, aspects, general disclosure and key performance indicators ("KPIs") | | Section | Page Number |
|---|---|---|---|
| **A. Environmental**<br>*Aspect A1: Emissions*<br>General Disclosure | | Protecting Our Environment | P. 44 |
| Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Protecting Our Environment | | | |
| KPI A1.1 | The types of emissions and respective emission data. | Reducing Emissions | P. 44 |
| KPI A1.2 | Greenhouse gas emissions in total and intensity. | Reducing Emissions | P. 44 |
| KPI A1.3 | Total hazardous waste produced and intensity. | The Group does not generate significant amount of hazardous waste. | N/A |
| KPI A1.4 | Total non-hazardous waste produced and intensity. | Reducing Emissions | P. 44 |
| KPI A1.5 | Description of measures to mitigate emissions and results achieved. | Reducing Emissions | P. 44 |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Reducing Emissions | P. 44 |

| | | | |
|---|---|---|---|
| *Aspect A2: Use of Resources* | | | |
| General Disclosure<br><br>Policies on the efficient use of resources, including energy, water and other raw materials.<br><br>Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc. | | Saving Resources | P. 46 |
| KPI A2.1 | Direct and/or indirect energy consumption by type in total and intensity. | Saving Resources | P. 46 |
| KPI A2.2 | Water consumption in total and intensity. | Saving Resources | P. 46 |
| KPI A2.3 | Description of energy use efficiency initiatives and results achieved. | Saving Resources | P. 46 |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Saving Resources | P. 46 |
| KPI A2.5 | Total packaging material used for finished products and with reference to per unit produced. | The Group's operation does not involve any packaging material. | N/A |
| *Aspect A3: Environment and Natural Resources* | | | |
| General Disclosure<br><br>Policies on minimising the issuer's significant impact on the environment and natural resources. | | The Group does not generate significant impact on the environment and natural resources. | N/A |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | N/A | N/A |

| | | | |
|---|---|---|---|
| **B. Social** | | | |
| ***Employment and Labour Standards*** | | | |
| *Aspect B1: Employment* | | | |
| General Disclosure<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | | Feiyu as a Great Work Place for Our Employees | P. 38 |
| KPI B1.1 | Total workforce by gender, employment type, age group and geographical region. | Employee Overview | P. 38 |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | Not disclosed for the Year | N/A |
| *Aspect B2: Health and Safety* | | | |
| General Disclosure<br><br>Information on:<br><br>((a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to providing a safe working environment and protecting employees from occupational hazards. | | Provide a Safe Work Place and Strive for Work-life Balance | P. 40 |
| KPI B2.1 | Number and rate of work-related fatalities. | Provide a Safe Work Place and Strive for Work-life Balance | P. 40 |
| KPI B2.2 | Lost days due to work injury. | Provide a Safe Work Place and Strive for Work-life Balance | P. 40 |
| KPI B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | Provide a Safe Work Place and Strive for Work-life Balance | P. 40 |

| | | | |
|---|---|---|---|
| *Aspect B3: Development and Training* | | | |
| General Disclosure<br><br>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | | Training and Development | P. 43 |
| KPI B3.1 | The percentage of employees trained by gender and employee category. | Not disclosed for the Year | N/A |
| KPI B3.2 | The average training hours completed per employee by gender and employee category. | Not disclosed for the Year | N/A |
| *Aspect B4: Labour Standards* | | | |
| General Disclosure<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to preventing child and forced labour. | | Labour Standards | P. 43 |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | Labour Standards | P. 43 |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | Not disclosed for the Year | N/A |
| ***Operating Practices*** | | | |
| *Aspect B5: Supply Chain Management* | | | |
| General Disclosure<br><br>Policies on managing environmental and social risks of the supply chain. | | Supply Chain Management | P. 51 |
| KPI B5.1 | Number of suppliers by geographical region. | Not disclosed for the Year | N/A |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | Supply Chain Management | P. 51 |

| | | | |
|---|---|---|---|
| *Aspect B6: Product Responsibility*<br>General Disclosure<br><br>Information on:<br><br>((a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | | Our Commitment in Undertaking Responsibilities | P. 51 |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | The Group does not produce any products. | N/A |
| KPI B6.2 | Number of products and service related to complaints received and how they are dealt with. | Not disclosed for the Year | N/A |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Intellectual Property Rights | P. 54 |
| KPI B6.4 | Description of quality assurance process and recall procedures. | The Group does not produce any products. | N/A |
| KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Protect Personal Data Privacy | P. 54 |

| | | | |
|---|---|---|---|
| *Aspect B7: Anti-Corruption* | | | |
| General Disclosure<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to bribery, extortion, fraud and money laundering. | | Anti-corruption | P. 55 |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | Anti-corruption | P. 55 |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Anti-corruption | P. 55 |
| ***Community*** | | | |
| *Aspect B8: Community Investment* | | | |
| General Disclosure<br><br>Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | | Youth Support and Giving Back to Our Society | P. 50 |
| KPI B8.1 | Focus areas of contribution. | Not disclosed for the Year | N/A |
| KPI B8.2 | Resources contributed to the focus area. | Not disclosed for the Year | N/A |

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this annual report were:

**Executive Directors**
Mr. YAO Jianjun *(Chairman and Chief Executive Officer)*
Mr. CHEN Jianyu *(President)*
Mr. BI Lin *(Vice President)*
Mr. LIN Jiabin *(Vice President)*
Mr. LIN Zhibin *(Vice President)*

**Independent Non-executive Directors**
Ms. LIU Qianli
Mr. LAI Xiaoling
Mr. MA Suen Yee Andrew

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

## BIOGRAPHICAL DETAILS OF DIRECTORS

**Executive Directors**
**YAO Jianjun** (**姚劍軍**), aged 39, is a founder of the Group and a Controlling Shareholder. He joined the Group on 12 January 2009 and was appointed as Chairman, Chief Executive Officer and Executive Director on 6 March 2014. He is also the chairman of the Nomination Committee. Mr. Yao is responsible for the overall management and strategic planning and development of the Group. Mr. Yao also sits on the boards of various companies within the Group, including acting as the director of Xiamen Feiyu Technology Co., Ltd. (廈門飛魚科技有限公司) (previously named as Xiamen Feiyou Information Technology Co., Ltd. (廈門飛遊信息科技有限公司)) since 24 June 2014, director of Xiamen Yidou Internet Technology Co., Ltd. (廈門翼逗網絡科技有限公司) since 3 September 2014, director of Xiamen Zhangxin Interactive Technology Co., Ltd. (廈門掌心互動科技有限公司) since 27 October 2014, director of Xiamen Feichang Information Technology Co., Ltd. (廈門飛暢信息科技有限公司) since 5 May 2015, director of Xiamen Xiyu Internet Technology Co., Ltd. (廈門喜魚網絡科技有限公司) since 27 May 2015, director of Xiamen Yufei Xingkong Information Technology Co., Ltd. (廈門魚飛星空信息科技有限公司) from 1 June 2015 to 21 September 2020, director of Milin Feiyu Technology Co., Ltd. (米林飛魚科技有限公司) since 10 July 2015, director of Xiamen Feiyu Wuxian Cultural Media Co., Ltd. (廈門飛魚無限文化傳媒有限公司) from 24 July 2015 to 17 November 2020, director of Jiaxi Global Limited (家喜環球有限公司) since 20 August 2015, director of Beijing Wei'an Haixing Information Technology Co., Ltd. (北京偉岸海星信息科技有限公司) from 21 October 2015 to 27 November 2020, director of Xiamen Haohaowan Information Technology Co., Ltd. (廈門好好玩信息科技有限公司) since 4 January 2016, director of Shenzhen Feiyu Xingkong Technology Company Ltd. (深圳飛魚星空科技有限公司) since 23 February 2017 and director of Shenzhen Feiyu Digital Technology Co., Ltd. (深圳飛魚數字科技有限公司) since 10 July 2017.

Mr. Yao also acts as director of Xiamen Plump Fish Cultural Media Co., Ltd. (廈門小魚飛飛文化傳媒有限公司) (a company focused on designing, producing and distributing cartoons, films, TV dramas, online dramas and other visual products) since 25 November 2015, director of Xiamen Zhangxin Internet Technology Co., Ltd. (廈門掌信網絡科技有限公司) (a company directly held as to 18.4966%, 30.7177% and 5.7857% equity interests by each of Mr. Yao, Mr. Chen Jianyu and Mr. Bi Lin as at 31 December 2020) since 18 December 2015, director of Xiamen Kangaroo Family Information Technology Company Ltd. (廈門袋鼠家信息科技有限公司) (a company developing parenting education app) since 4 January 2016, the general partner of Xiamen Xiao Yu Fei Fei Investment Partnership (limited partnership) since 17 October 2016, director of Ewan (Shanghai) Network Technology Co., Ltd. (易玩(上海)網絡科技有限公司) which was the investee of the Company from 27 May 2017 to 10 February 2019.

Mr. Yao has more than 19 years of experience in the internet industry, including establishing and operating various websites and developing online games. Since April 2018, he has been the vice chairman of the Xiamen Animation and Game Industry Association (廈門市動漫遊戲產業協會), an industry association established by Xiamen Software Association (廈門軟件行業協會). He had founded a number of websites, including CNZZ.com (站長統計) (a website providing statistical services for PRC websites; the website subsequently received venture capital investments from IDG and Google and was eventually acquired by Alibaba), Chinaz.com (站長之家) (a website providing various technology and other services to PRC webmasters), Wo Ai Wo Wang (我愛我網), Yongchun Information Harbour (永春信息港) and Changan City Gaming Community (長安城遊戲社區) (a website operating martial arts multiple user domain games). In 2012, Mr. Yao was elected as one of the 30 representative entrepreneurs under age 30 by Forbes China. In 2016, Mr. Yao was granted Hurun Entrepreneurship & Innovation Award by Hurun Report.

Mr. Yao is a founder of Xiamen Guanghuan. Since August 2013, he has also been the executive director of Xiamen Xianglian, an internet technology development and services company listed on National Equities Exchange and Quotations on 11 January 2017 and delisted on 24 October 2018 and served as its chairman from 11 July 2016 to 17 April 2020, and served as its general manager in charge of its website operation and the overall management from July 2005 to August 2013. Prior to that, from March 2002 to July 2005, Mr. Yao devoted himself to the development of Chinaz.com (站長之家).

Mr. Yao graduated from the Financial and Trading School of Wanzhou District of Chongqing City (重慶萬縣財政貿易學校) in July 2000 with a senior high school diploma.

**CHEN Jianyu** (**陳劍瑜**), aged 38, joined the Group on 31 December 2013 and was appointed as an Executive Director and President of the Company on 6 March 2014. He is responsible for strategic planning, product research and development, and operations of the Group. Mr. Chen also acts as director of various companies within the Group, including acting as director of Xiamen Kailuo Tianxia Information Technology Co., Ltd. (廈門凱羅天下信息科技有限公司) (previously named as Xiamen Heihuo Internet Technology Co., Ltd. (廈門黑火網絡科技有限公司)) since 10 March 2020, director of Milin Feiyou Technology Co., Ltd. (米林飛遊科技有限公司) since 1 July 2015, director of Beijing Bai Cai Tian Xia Technology Co., Ltd. (北京白菜天下科技有限公司) (previously named as Beijing Feiyu Wuxian Cultural Media Co., Ltd. (北京飛娛無限文化傳媒有限公司)) since 10 June 2015 and director of Beijing Feiyu Xingkong Technology Co., Ltd. (北京飛魚星空科技有限公司) since 24 August 2015. Mr. Chen is a substantial shareholder of the Company.

Mr. Chen has also acted as director of Beijing Feiyu Interactive Cultural Media Co., Ltd. (北京飛娛互動文化傳媒有限公司), an indirect subsidiary of Xiamen Zhangxin Internet Technology Co., Ltd. (廈門掌信網絡科技有限公司) (a company directly held as to 18.4966%, 30.7177% and 5.7857% equity interests by each of Mr. Yao, Mr. Chen and Mr. Bi Lin as at 31 December 2020) since 5 April 2016, director of Guangzhou Huazhan Tiancheng Technology Co., Ltd. (廣州華棧天城科技有限公司) (an animation company previously named as Guangzhou Popcorn Animation Technology Co., Ltd. (廣州市爆米花動畫科技有限公司)) since 26 August 2016, and director of Guangzhou Big Firebird Cultural Media Co., Ltd. (廣州大火鳥文化傳媒有限公司, an animation company) from 14 September 2017 to 27 August 2020.

Mr. Chen has over 19 years of experience in the internet industry. He has developed and are responsible for developing a number of internet software products, including Shengshengkan Software (省省看公益軟件) (a free power management software for promoting environmental protection concept), IQ Browser (IQ瀏覽器) (an internet browser software) and Meitu Viewer (美圖看看) (an image viewing software).

Mr. Chen is one of the founders of Kailuo Tianxia and has served as its chief executive officer and the head of the research and development department since August 2013, primarily responsible for its product development and overall management. In July 2010, Mr. Chen co-founded Beijing Meitu Creative Advertisement Co., Ltd. (北京美圖創想廣告有限公司), a wholly-owned subsidiary of Meitu Networks (美圖網) and the developer of Meitu Viewer (美圖看看) (an image viewing software), and served as its general manager from its inception to July 2013, during which he was primarily responsible for its overall management. From April 2008 to May 2010, Mr. Chen worked at Kulanuo Information Technology (Beijing) Co., Ltd. (庫拉諾信息技術(北京)有限公司), a social networking website and software product developing company, and served as the general manager of its internet browser project, IQ Browser (IQ瀏覽器). Prior to that, from July 2006 to March 2008, Mr. Chen served as the head of the design department of Trend Media Corporation Limited (網際快車信息技術有限公司), a company developing internet download managing software, including Flashget, a leading internet download managing software, primarily responsible for managing its product design department and user experience department. From May 2005 to June 2006, he was the head of the design department of Beijing Zhitong Wuxian Technology Co., Ltd (北京智通無限科技有限公司), a company developing and operating internet electronic magazine publishing platforms, including ZCOM electronic magazine software, primarily responsible for managing the software's product design department and user experience department.

Mr. Chen graduated from Beijing Institute of Fashion Technology (北京服裝學院) in July 2005 with a bachelor's degree in computer art design.

**BI Lin** (**畢林**), aged 39, is a founder of the Group and one of the Controlling Shareholders. He joined the Group on 12 January 2009 and was appointed as an Executive Director and Vice President of the Company on 6 March 2014. He is also a member of the Remuneration Committee. Mr. Bi is in charge of the Group's research and development of web games. Mr. Bi also sits on the boards of various companies within the Group, including acting as director of Xiamen Guanghuan since 16 August 2011, director of Xiamen Youli from 19 September 2011 to 4 February 2012, director of Feiyu Technology Hong Kong since 25 March 2014, director of Xiamen Feixin since 1 November 2014, director of Xiamen Guangling since 10 November 2014, director of Xiamen Guangqu Investment Management Co., Ltd. (廈門光趣投資管理有限公司) since 10 November 2014, director of Xiamen Kailuo Tianxia Information Technology Co., Ltd. (廈門凱羅天下信息科技有限公司) (previously named as Xiamen Heihuo Internet Technology Co., Ltd. (廈門黑火網絡科技有限公司)) from 3 May 2018 to 10 March 2020, director of Sea Star Entertainment Co., Limited since 31 December 2018 and director of Xiamen 8384 Information Technology Company Limited (廈門八三八四信息科技有限公司) since 22 February 2019.

Mr. Bi also acts as director of Xiamen Chenxing Interactive Technology Co., Ltd. (廈門辰星互動信息科技有限公司), an associated company of the Group, since 25 October 2017.

Mr. Bi has over 16 years of experience in the internet industry. He has been the vice chairman of the Xiamen Animation and Game Industry Association (廈門市動漫遊戲產業協會), an industry association established by Xiamen Software Association (廈門軟件行業協會), from March 2014 to March 2018. He is a co-founder of Xiamen Guanghuan and has served as its executive director and general manager since August 2011, primarily responsible for coordinating management discussions and shareholder meetings on business development plans, operating strategies and investment plans. In April 2007, Mr. Bi co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Lin Jiabin and Mr. Lin Zhibin, both of whom are our Executive Directors and Vice Presidents, and served as its general manager from its inception to December 2008, primarily responsible for its business development. In July 2004, Mr. Bi founded Xiamen Visual Parameters Design Co., Ltd. (廈門視覺參數設計有限公司), a graphics art design company, and served as its general manager from its inception to May 2006, primarily responsible for its business development.

Mr. Bi graduated from Xiamen Yingcai School (廈門英才學校) in July 2000 with a senior high school diploma.

**LIN Jiabin** (**林加斌**), aged 39, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 26 August 2014. He is in charge of the operations of the Group's web and mobile games. Mr. Lin Jiabin also acts as a director of various companies within the Group, including acting as director of Xiamen Youli since 5 February 2012, in which he is primarily responsible for its game marketing and operations, director of Xiamen Fei Xiang Yue Investment Management Co., Ltd. (廈門飛享悅投資管理有限公司) since 9 August 2016, director of Hainan Feiyi Internet Technology Company Limited (海南飛翼網絡科技有限公司) since 8 June 2018, and director of Star Winner Asia Corporation since 2 October 2018.

Mr. Lin Jiabin has more than 15 years of experience in the internet industry. He is a co-founder of Xiamen Guanghuan and has been involved in its shareholder decision making processes since its inception in January 2009. In May 2003, he co-founded China Badminton Online (中羽在線網), a badminton sport internet portal in the PRC, with his brother, Mr. Lin Zhibin, who is also one of our founders, Executive Directors and Vice Presidents. In April 2007, Mr. Lin Jiabin also co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Bi Lin and Mr. Lin Zhibin, both of whom are our Executive Directors and Vice Presidents, and Mr. Lin Jiabin served as an engineer in its technology department from April 2007 to January 2009. Prior to that, from December 2005 to November 2007, Mr. Lin Jiabin served as a website designer in Xiamen Wanshang Shengshi Network Co., Ltd. (廈門萬商盛世網絡有限公司).

Mr. Lin Jiabin graduated from Xiamen University (廈門大學) in July 2005, majoring in electronic commerce.

Mr. Lin Jiabin is the younger brother of Mr. Lin Zhibin, an Executive Director and Vice President of the Company.

**LIN Zhibin** (**林志斌**), aged 39, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as an Executive Director and Vice President of the Company on 26 August 2014. He is in charge of the Group's product design and management.

Mr. Lin Zhibin has also acted as director of Xiamen Talent Talk Interactive Technology Co., Ltd. (廈門聯遠互動科技有限公司) (a wholly foreign-owned enterprise which was established in the PRC with limited liability) from 24 December 2018 to 27 October 2020. Form 26 October 2018 to 18 December 2019, Mr. Lin Zhibin acted as director of Xiamen Xianglian.

Mr. Lin Zhibin has more than 15 years of experience in the internet industry. He is a co-founder of Xiamen Guanghuan and has served as its chief designer since its inception in January 2009. Mr. Lin Zhibin co-founded China Badminton Online (中羽在線網), a badminton internet portal in the PRC with his brother, Mr. Lin Jiabin, who is also one of our founders, Executive Directors and Vice Presidents. In April 2007, Mr. Lin Zhibin also co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Bi Lin and Mr. Lin Jiabin, both of whom are our Executive Directors and Vice Presidents, and served as its chief designer from its inception to January 2009, primarily responsible for product design, research and development. Prior to that, from July 2005 to December 2006, Mr. Lin Zhibin served as website designer of Xiamen Advantage Interactive Network Technology Company Limited (廈門優勢互動網絡科技有限公司) (formerly known as Xiamen Youwang Technology Company Limited (廈門優網科技有限公司)), a website designing company.

Mr. Lin Zhibin graduated from Xiamen University (廈門大學) in July 2005, majoring in electronic commerce.

Mr. Lin Zhibin is the elder brother of Mr. Lin Jiabin, an Executive Director and Vice President of the Company.

**Independent Non-executive Directors**

**LIU Qianli** (**劉千里**), aged 45, was appointed as an Independent Non-executive Director on 17 November 2014. She is the chairwoman of the Audit Committee and the Remuneration Committee, as well as a member of the Nomination Committee.

Ms. Liu has over 17 years of experience in investment banking and corporate finance. She has been an independent non-executive director of XD Inc., a game developer and operator listed on the Main Board of the Stock Exchange (Stock Code: 2400), since December 2020; and an independent non-executive director of BAIOO Family Interactive Limited, a children's web game developer listed on the Main Board of the Stock Exchange (Stock Code: 2100), since March 2014. Since July 2020, she also has been a vice principal of school of Keystone Academy, an outstanding school providing international education from foundation year to grade 12. From December 2010 to July 2013, Ms. Liu served as the chief financial officer of Phoenix New Media Limited, a media company listed on the New York Stock Exchange (Stock Symbol: FENG). Prior to that, she served as the chief financial officer of China EDU Corp. from October 2008 to November 2010. From June 2007 to August 2008, she served as the chief financial officer of Main One Information Technology Company Ltd. (銘萬資訊技術有限公司), an information technology company. Ms. Liu worked as a vice president at Lehman Brothers investment banking in Hong Kong and as an associate at Lehman Brothers investment banking in New York from July 2003 to June 2007.

Ms. Liu received her MBA degree from MIT Sloan School of Management in June 2003 and her bachelor of arts degree from Dartmouth College in June 1997.

**LAI Xiaoling (賴曉凌)**, aged 45, was appointed as an Independent Non-executive Director on 17 November 2014. He is a member of each of the Audit Committee and the Remuneration Committee.

Mr. Lai has over 17 years of experience in investment and business management. He has been an independent non-executive director of Meitu, Inc. (Stock Code: 1357) since 1 January 2019. He has also been a partner of Shunwei Capital (順為資本), a venture capital fund, since January 2018, and is primarily responsible for investment strategy, team formation and management and portfolio management. From June 2013 to December 2017, he was a partner of Innovation Ark (Beijing) Investment Management Consulting Company Limited (創新方舟(北京)投資管理諮詢有限公司), a venture capital fund, primarily responsible for investment strategy, personnel recruitment and training and portfolio management. Between June 2012 and April 2013, he served as a principal for Chengwei Investment Advisory (Shanghai) Co., Ltd. (成為投資諮詢(上海)有限公司), a venture capital fund. From October 2007 to February 2012, he worked as an investment manager and vice president for Morningside TMT (Shanghai) Limited (晨創啟興(上海)投資管理諮詢有限公司), a venture capital fund, primarily responsible for deal sourcing, execution and portfolio management.

Mr. Lai received his MBA degree from Chinese University of Hong Kong in December 2007 and a bachelor of engineering degree in engineering physics from Tsinghua University (清華大學) in July 1999.

**MA Suen Yee Andrew (馬宣義)**, aged 48, was appointed as an Independent Non-Executive Director on 17 November 2014. He is a member of each of the Audit Committee and the Nomination Committee.

Mr. Ma has over 22 years of experience in investment and business management. He has been with VMS Investment Group (HK) Limited, a member of VMS Group of Companies which is a multi-strategy investment group with businesses covering proprietary investment, asset management, securities broking and corporate finance advisory, serving as a managing director since January 2014 and an executive director from January 2011 to December 2013, primarily responsible for sourcing and executing structured finance and other debt related transactions as well as managing the daily operations of the structured finance team; a senior investment manager from January 2009 to December 2010, primarily responsible for investment deal sourcing and leading the investment team for execution of investment deals; and an analyst from May 2007 to December 2008, primarily responsible for executing and monitoring private equity investment deals. Prior to joining VMS Investment Group, he worked and held various positions in World Family Limited, a distributor and promoter of licensed Disney products, from September 1999 to April 2007, most recently as a senior regional credit & customer relation manager.

Mr. Ma received a master of science degree in investment management from the Hong Kong University of Science and Technology in November 2007 and a bachelor of science degree in mathematics from University of Technology, Sydney in May 1999.

### Biographical Details of the Senior Management

The senior management is responsible for the day-to-day management of the Group's business.

**XU Yiqing** (**許藝清**), aged 43, joined the Group on 10 December 2014, and was appointed as one of our vice presidents on the same day. She is responsible for human resources development and administrative and organisational management.

Ms. Xu has over 23 years of corporate management experience in the internet industry and information technology industry. From January 2011 to December 2014, Ms. Xu worked at Xiamen Jizhi Hudong Online Technology Company Limited (廈門極致互動網絡技術有限公司), a company which develops and operates online games. She served as the vice general manager and was responsible for human resources, administrative management and strategic planning. From March 2007 to December 2010, Ms. Xu worked at Gillion New Software Co., Ltd. (吉聯新軟件股份有限公司), an information technology and logistics information technology services company, and served as the general manager of its integrated management department. She was responsible for the company's human resources, administrative management and strategic planning. From December 2005 to March 2007, Ms. Xu worked at Xiamen Longtop System Co., Ltd. (廈門東南融通系統有限公司), a company specialising in providing software support and services to financial institutions. She served as the supervisor of the human resources department and was responsible for recruitment and training. From August 1997 to December 2005, Ms. Xu worked at Top (Xiamen) Computer System Co., Ltd. (鼎盛(廈門)電腦系統有限公司), a company specialising in providing software support and services to financial institutions. She was the manager of its human resources and administration department and was responsible for personnel and administrative management.

Ms. Xu graduated from the Faculty of Computer Science of Xiamen Zhongxin International Computer Institute (廈門中新國際電腦學院) in July 1996.

**YANG Guangwen** (**楊光文**), aged 40, joined the Group on 27 April 2015 and was appointed as one of our vice presidents on 28 April 2015. He is responsible for setting up our Chengdu R&D center and our overall management of production planning, design and development of the games of the Group's subsidiaries in Chengdu.

Mr. Yang has over 18 years of experience in business administration and the internet industry. From April 2014 to April 2015, Mr. Yang worked at Zhuhai Qianyou Technology Company Limited (珠海仟遊科技有限公司), a company which develops online games. He was responsible for the operation of the mobile games and client based games. From October 2013 to March 2014, Mr. Yang served as vice general manager of Xiamen Qingci Shuma Technology Company Limited (廈門青瓷數碼科技有限公司), a company which develops and operates online games and was responsible for the operation of mobile games and development of client-based games. From July 2010 to September 2013, Mr. Yang served as vice general manager of Xiamen Jizhi Hudong Online Technology Company Limited (廈門極致互動網絡技術有限公司), a company which develops and operates online games and was responsible for the marketing and operating of web games and client based games. In June 2007, Mr. Yang co-founded Sichuan Huanyou Internet Technology Company Limited (四川環遊網絡科技有限公司), a company which develops Internet-based interactive entertainment products and application softwares and served as general manager from inception to April 2010, primarily responsible for the overall management. Prior to that that, Mr. Yang also served as vice general manager of Sichuan 8760 Internet Technology Company Limited (四川8760網絡科技有限公司), a company which develops and operates online games, primarily responsible for the development and operation of E-commerce website and the operation of client based games from July 2002 to May 2007.

Mr. Yang graduated from Southwest Jiaotong University (西南交通大學) in June 2002, majoring in computer applications.

**TU Qin** (**塗琴**), aged 39, was appointed as our Chief Operating Officer on 31 October 2017. She is responsible for the operations of the Group's web and mobile games.

Ms. Tu has over 14 years of experience in the internet industry. From August 2006 to March 2014, Ms. Tu worked in the web game distribution department of the interactive entertainment division of Tencent Holdings Limited (騰訊互動娛樂), shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 700), which is a leading provider of Internet value-added services in China and was responsible for the management of the distribution of several popular web games. In March 2014, Ms. Tu founded Shenzhen Zhangxin Interactive Technology Co., Ltd. (深圳掌心互動科技有限公司) ("Shenzhen Zhangxin"), a game development company and a 30%-owned associate of the Group since May 2015 and became a subsidiary of the Group after further acquisition of 21% interest in November 2017, where she served as its general manager since establishment and was responsible for its overall management and strategic planning. Since March 2014, Shenzhen Zhangxin has developed several mobile games, out of which an innovative elimination card game was successfully published in overseas markets and Ms. Tu has accumulated extensive experience in overseas distribution of games. In essence, Ms. Tu has devoted herself to the game development, game distribution and game operation in both mainland China and overseas markets and has achieved remarkable success.

Ms. Tu graduated from the National University of Defense Technology (中國人民解放軍國防科技大學) in December 2002, majoring in computer and application.

**LUI Mei Ka** (**雷美嘉**), aged 36, was appointed as Chief Financial Officer, joint company secretary and authorised representative of the Group on 27 September 2018, and is responsible for the Group's overall financial reporting and management.

Ms. Lui has over 14 years of experience in financial management and corporate finance. She acted as the company secretary and financial controller of LT Commercial Real Estate Limited (Stock code: 112), a company engaged in property development and investment and listed on the Main Board of the Stock Exchange, from 2013 to 2016 and acted as the company secretary and chief financial officer of GR Properties Limited (Stock code: 108), a company engaged in property development and investment and listed on the Main Board of the Stock Exchange, from 2016 to 2018. Prior to that, Ms. Lui also had about seven years of experience in auditing and accounting at Deloitte Touche Tohmatsu from 2006 to 2013.

Ms. Lui holds a bachelor's degree in business administration from The Chinese University of Hong Kong and is a member of Hong Kong Institute of Certified Public Accountants.

**WEI Yulan** (**魏郁嵐**), aged 35, joined the Group in July 2014, and was appointed as a joint company secretary of the Company on 27 September 2018. She is currently the financial controller of the Group.

Ms. Wei has also acted as director of Feiyu Asset Management (Dongyang) Company Limited (飛魚資產管理（東陽）有限公司) which is a newly founded subsidiary of the Company since 28 March 2018.

Ms. Wei has over 12 years of experience in financial and accounting. She had one-year experience in risk assessment at Xiamen International Bank from 2013 to 2014. She also had about five years of experience in auditing and accounting at KPMG from 2008 to 2013.

Ms. Wei holds a bachelor's degree in Accounting from Xiamen University and is a member of the Association of Chartered Certified Accountants.

**SHENG Xiang** (**盛翔**), aged 43, joined the Group on 3 January 2020, and was appointed as one of our vice presidents and Chief Technology Officer on the same day. He is responsible for the overall management of our platform center and providing technical support for our game development and game operation.

Mr. Sheng has over 17 years of experience in the internet industry. From August 2018 to December 2019, Mr. Sheng served as Chief Software Architect of Yunlizhihui Technology Company Limited (雲粒智慧科技有限公司), a company founded jointly by China Unicom and Alibaba group providing digital transformation solution and was responsible for the architecture design and implementation. From April 2015 to July 2018, Mr. Sheng co-founded Beijing Anybeen Technology Company Limited (北京雲享人生科技有限公司), a software company focus on the mobile internet data service platform and served as its chief technology officer and was responsible for the architecture design and implementation. From May 2011 to April 2015, Mr. Sheng served as senior technical expert of Alibaba Cloud (阿裡雲), a business unit of Alibaba Group (NYSE: BABA) providing a comprehensive suite of global cloud computing services to power both international customers' online businesses and Alibaba Group's own e-commerce ecosystem and was responsible for the architecture design and implementation. From October 2007 to May 2011, Mr. Sheng served as the chief technology officer of CNZZ (站長統計) (a website providing statistical services for PRC websites) and was responsible for the overall architecture design and implementation. From September 2005 to October 2007, Mr. Sheng served as R&D manager of 360.com, an international top-level domain under Vodafone (LSE: VOD, NYSE: VOD), a leader in technology communications through mobile, fixed, broadband and TV, and primarily responsible for the development and development of searching engine and the development of 50bang.com. Prior to that, Mr. Sheng served as R&D engineer of 3721 and Yahoo China and responsible for the user center development and product development.

Mr. Sheng graduated from Tongji University (同濟大學) in September 2000, majoring in communication engineering.

# REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The principal activity of the Group is the development and operation of mobile games, web games and PC games, with a strategic focus on mobile games. The activities of its principal subsidiaries are set out in Note 1 to the financial statements.

Details of the activities during the year ended 31 December 2020 as required by Schedule 5 of the Companies Ordinance, including a description of the principal risks and uncertainties facing the Group, an indication of likely future development in the Group's business, and the Group's environmental policies and performance, as well as compliance with relevant laws and regulations which have a significant impact on the Company, are set out under the section headed "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this annual report.

Particulars of important events affecting the Company that have occurred since the end of the financial year 2020 if any, can also be found in the section headed "Management Discussion and Analysis" of this annual report. The outlook of the Company's business is also discussed throughout this annual report including in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. An account of the Company's relationships with its key stakeholders is included in the "Report of Directors" and "Environmental, Social and Governance Report" of this annual report.

## FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2020, and the state of the Company's and the Group's financial affairs as at that date are set out on pages 121 to 203 of this annual report.

## FINANCIAL SUMMARY

A summary of the results, and assets and liabilities of the Group for the last five financial years is set out on page 4 of this annual report.

## USE OF PROCEEDS FROM IPO

The net proceeds from the Global Offering were approximately HK$585.0 million (equivalent to approximately RMB463.2 million) after deducting the underwriting fees and commission, and related total expenses paid and payable by us in connection with the Listing.

The following table sets forth the use of net proceeds from the Global Offering:

| | Net Proceeds from Global Offering | | | |
|---|---|---|---|---|
| | **Available to utilise** | | **Utilised (up to 31 December 2020)** | **Unused balance** |
| | RMB'000 | Percentage | RMB'000 | RMB'000 |
| Expanding and enhancing game portfolio | 185,281 | 40% | 185,281 | – |
| Expanding marketing and promotion activities | 92,641 | 20% | 92,641 | – |
| Establishing and expanding international operations in selected overseas markets | 69,480 | 15% | 69,480 | – |
| Potential acquisitions of technologies and complimentary online games or business, partnerships and licensing opportunities | 69,480 | 15% | 69,480 | – |
| Supplementing working capital and for other general corporate purposes | 46,320 | 10% | 46,320 | – |
| | 463,202 | 100% | 463,202 | – |

Note: The figures above are approximate figures.

As at 31 December 2020, the Group had used up all of the net proceeds from the Global Offering of RMB463.2 million as detailed above in accordance with the intended use of net proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

## RESERVES

Changes to the reserves of the Group during the year ended 31 December 2020 are set out in the Consolidated Statements of Changes in Equity on page 125 of this annual report. Changes to the reserves of the Company during the year ended 31 December 2020 are set out in Note 36 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves, including the share premium account, available for distribution and calculated in accordance with the Companies Law, amounted to approximately RMB261,217,000 (as at 31 December 2019: RMB260,725,000). Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

## PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group and the Company during the year ended 31 December 2020 are set out in Note 13 to the financial statements.

## SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

Details of the Company's share capital and share incentive schemes are respectively set out in Notes 26 and 27 to the financial statements and the sections headed "Share Option Schemes" and "Restricted Share Unit Plans" below.

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2020 are set out in Note 1 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group consist of individual game players and licensees of games of the Group and the percentage of the aggregate revenue attributable to the Group's five largest customers accounted for approximately 37.6% of the Group's total revenue for the year ended 31 December 2020 and of which, sales from the largest customer, who is our licenced game developer, Hangzhou Zhangpai Technology Company Limited, accounted for approximately 12.8% of the Group's total sales.

During the year ended 31 December 2020, the percentage of the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 15.2% of the Group's cost of sales, among which the largest supplier accounted for approximately 8.5% of the Group's cost of sales.

None of the Directors or any of their close associates or any Shareholders (which to the best knowledge of the Directors owned more than 5% of the Company's issued share capital) had a material interest in the Group's five largest suppliers.

## BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2020 are set out in Note 24 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the financial year are set out in Note 26 to the financial statements.

## CHARITABLE DONATIONS

During the year, there was no donation made by the Company (2019: Nil) to not-for-profit organisations.

## PERMITTED INDEMNITY PROVISION

Under the Articles, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses for acts done, concurred in or omitted in when discharging their duties in the affairs of the Company, other than any matter in respect of any fraud or dishonesty.

In addition, the Company has taken out and maintained directors' liability insurance throughout the year, which provides appropriate cover for legal actions brought against the Directors. The level of the coverage is reviewed annually.

## DIRECTORS

The Directors during the year and up to the date of this annual report are:

**Executive Directors**
Mr. YAO Jianjun *(Chairman and Chief Executive Officer)*
Mr. CHEN Jianyu *(President)*
Mr. BI Lin *(Vice President)*
Mr. LIN Jiabin *(Vice President)*
Mr. LIN Zhibin *(Vice President)*

**Independent Non-executive Directors**
Ms. LIU Qianli
Mr. LAI Xiaoling
Mr. MA Suen Yee Andrew

In accordance with article 84(1) of the Articles of Association, Messrs. YAO Jianjun, LIN Jiabin and LIN Zhibin will retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election thereat.

## BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 62 to 70 of this annual report.

## DISCLOSURE OF INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B (1) OF THE LISTING RULES

Save as disclosed in this annual report, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2020 interim report up to the date of this annual report.

## DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

Each of the Executive Directors has entered into a service agreement with the Company to renew the Director's appointment for a term of three years commencing from 17 November 2020 unless terminated by either party giving not less than three months' notice in writing to the other.

Each of the Independent Non-executive Directors has entered into a letter of renewal of appointment with the Company for a term of three years commencing from 17 November 2020 unless terminated by either party giving not less than three months' notice in writing to the other.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has or is proposed to have a service agreement or a letter of appointment with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of the Directors and senior management are set out in Note 8 and Note 31 to the financial statements in this annual report. The annual remuneration of the Directors and senior management fell within the following bands:

| Remuneration band (RMB) | Number of individuals in year 2020 |
|---|---|
| Below 1,000,000 | 5 |
| 1,000,000–2,000,000 | 7 |
| 2,000,001–3,000,000 | 2 |
| 3,000,001–4,000,000 | – |
| 4,000,001–5,000,000 | – |
| Over 5,000,000 | – |

## REMUNERATION POLICY

The remuneration of the Group's employees is determined based on their performance, experience, competence and market comparables. Their remuneration package includes salaries, bonus related to the Group's performance, allowances, equity – settled share-based payment and state-managed retirement benefit schemes for employees in the PRC. The Company also provides customised training to its staff to enhance their technical and product knowledge.

The remuneration package of the Directors and the senior management is determined on the basis of each individual's responsibilities, qualification, position, experience, performance, seniority and time devoted to the Group's business. They receive compensation in the form of salaries, bonuses, share options, RSUs, and other allowances and benefits-in-kind, including the Company's contribution to their pension scheme on their behalf. The remuneration policy of the Directors and the senior management is reviewed by the Remuneration Committee and approved by the Board.

In addition, the Group has currently adopted the Post-IPO Share Option Scheme and the RSU Plan II as its long-term incentive schemes. Details of the incentive schemes are set out under the sections headed "Share Option Scheme" and "Restricted Share Unit Plan" below and Note 27 to the financial statements.

During the year ended 31 December 2020, the Company considered the relationship with employees was well and the turnover rate is acceptable.

## INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive Directors, namely, Ms. LIU Qianli, Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, has confirmed to the Company their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has reviewed the independence of each of the Independent Non-executive Directors and considers that the Independent Non-executive Directors have been independent from the date of their appointment to 31 December 2020.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2020, the interests and short positions of the Directors and 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 were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be and were entered into the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

**Long positions in Shares**

| Name of Director/ chief executive | Capacity | Number of ordinary shares held (long position) | Approximate percentage of shareholding[7] % |
|---|---|---|---|
| YAO Jianjun | Founder of a Discretionary Trust<br>Interest of Controlled Corporation and Beneficial owner [1 and 2] | 489,884,500 | 31.67 |
| CHEN Jianyu | Founder of a Discretionary Trust<br>Interest of Controlled Corporation [1 and 3] | 161,538,000 | 10.44 |
| BI Lin | Founder of a Discretionary Trust<br>Interest of Controlled Corporation [1 and 4] | 112,470,000 | 7.27 |
| LIN Jiabin | Founder of a Discretionary Trust<br>Interest of Controlled Corporation [1 and 5] | 44,890,500 | 2.90 |
| LIN Zhibin | Founder of a Discretionary Trust<br>Interest of Controlled Corporation [1 and 6] | 44,890,500 | 2.90 |

1 TMF (Cayman) Ltd. is the trustee of The Yao Family Trust, The Bi Family Trust, The Chen Family Trust, The Lin Family Trust and The Zhi Family Trust.

2 These interests represented:

(a) 8,485,500 Shares held directly by Mr. Yao; and

(b) 481,399,000 Shares held by YAO Holdings Limited. The entire share capital of YAO Holdings Limited is wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. YAO Jianjun (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. YAO and his family members. Mr. YAO (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in 481,399,000 Shares held by YAO Holdings Limited pursuant to Part XV of the SFO.

3 The entire share capital of Fishchen Holdings Limited is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. CHEN (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. CHEN and his family members. Mr. CHEN Jianyu (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 161,538,000 Shares held by Fishchen Holdings Limited pursuant to Part XV of the SFO.

4 The entire share capital of BILIN Holdings Limited is wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. BI (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. BI and his family members. Mr. BI Lin (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 112,470,000 Shares held by BILIN Holdings Limited pursuant to Part XV of the SFO.

5 The entire share capital of LINT Holdings Limited is wholly owned by Supreme Top Global Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Lin Family Trust, which was established by Mr. LIN Jiabin (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. LIN and his family members. Mr. LIN (as founder of The Lin Family Trust) and Supreme Top Global Limited are taken to be interested in 44,890,500 Shares held by LINT Holdings Limited pursuant to Part XV of the SFO.

6 The entire share capital of LINCHEN Holdings Limited is wholly owned by Sheen Field Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Zhi Family Trust, which was established by Mr. LIN Zhibin on 13 August 2014 as a discretionary trust for the benefit of Mr. LIN and his family members. Mr. LIN (as founder of The Zhi Family Trust) and Sheen Field Limited are taken to be interested in 44,890,500 Shares held by LINCHEN Holdings Limited pursuant to Part XV of the SFO.

7 The percentage is calculated on the basis of 1,546,943,455 Shares in issue as at 31 December 2020.

Save as disclosed above, as at 31 December 2020, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company.

**Long position in Shares**

| Name of Shareholder | Capacity | Number of Ordinary Shares held (long position) | Approximate percentage of shareholding[8] % |
|---|---|---|---|
| TMF (Cayman) Ltd.[1] | Trustee of the family trusts | 1,001,257,955 | 64.72 |
| YAO Holdings Limited[2] | Beneficial owner | 481,399,000 | 31.12 |
| Jolly Spring International Limited[2] | Interest in a controlled corporation | 481,399,000 | 31.12 |
| Mr. YAO Jianjun[3] | Founder of a discretionary trust Interest in a controlled corporation and Beneficial owner | 489,884,500 | 31.67 |
| Fishchen Holdings Limited[4] | Beneficial owner | 161,538,000 | 10.44 |
| Honour Gate Limited[4] | Interest in a controlled corporation | 161,538,000 | 10.44 |
| Mr. CHEN Jianyu[4] | Founder of a discretionary trust Interest in a controlled corporation | 161,538,000 | 10.44 |
| BILIN Holdings Limited[5] | Beneficial owner | 112,470,000 | 7.27 |
| Rayoon Limited[5] | Interest in a controlled corporation | 112,470,000 | 7.27 |
| Mr. BI Lin[5] | Founder of a discretionary trust Interest in a controlled corporation | 112,470,000 | 7.27 |
| Eastep Holdings Limited[6] | Beneficial owner | 145,765,000 | 9.42 |
| Ace Kingdom Limited[6] | Interest in a controlled corporation | 145,765,000 | 9.42 |
| Mr. SUN Zhiyan[7] | Founder of a discretionary trust Interest in a controlled corporation and Beneficial owner | 150,765,000 | 9.75 |

Notes:

1 As at 31 December 2020, TMF (Cayman) Ltd. is the trustee of The Yao Family Trust, The Bi Family Trust, The Chen Family Trust, The Sun Family Trust, The Lin Family Trust, The Zhi Family Trust and The Dong Family Trust, seven trusts in total.

2 The entire share capital of YAO Holdings Limited is wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. YAO Jianjun (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. YAO and his family members. Mr. YAO (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in 481,399,000 shares held by YAO Holdings Limited pursuant to Part XV of the SFO.

3 These interests represented:

(a) 8,485,500 Shares held directly by Mr. YAO Jianjun; and

(b) 481,399,000 Shares held by YAO Holdings Limited. The entire share capital of YAO Holdings Limited is wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. YAO Jianjun (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. YAO and his family members. Mr. YAO (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in 481,399,000 shares held by YAO Holdings Limited pursuant to Part XV of the SFO.

4 The entire share capital of Fishchen Holdings Limited is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. CHEN Jianyu (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. CHEN and his family members. Mr. CHEN (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 161,538,000 Shares held by Fishchen Holdings Limited pursuant to Part XV of the SFO.

5 The entire share capital of BILIN Holdings Limited is wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. BI Lin (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. BI and his family members. Mr. BI (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 112,470,000 Shares held by BILIN Holdings Limited pursuant to Part XV of the SFO.

6 The entire share capital of Eastep Holdings Limited is wholly owned by Ace Kingdom Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Sun Family Trust, which was established by Mr. SUN Zhiyan (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. SUN and his family members. Mr. SUN (as founder of The Sun Family Trust) and Ace Kingdom Limited are taken to be interested in 145,765,000 Shares held by Eastep Holdings Limited pursuant to Part XV of the SFO.

7 These interests represented:

(a) 5,000,000 Shares held directly by Mr. SUN Zhiyan; and

(b) 145,765,000 Shares held by Eastep Holdings Limited. The entire share capital of Eastep Holdings Limited is wholly owned by Ace Kingdom Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Sun Family Trust, which was established by Mr. SUN Zhiyan (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. SUN and his family members. Mr. SUN (as founder of The Sun Family Trust) and Ace Kingdom Limited are taken to be interested in 145,765,000 Shares held by Eastep Holdings Limited pursuant to Part XV of the SFO.

8 The percentage is calculated on the basis of 1,546,943,455 Shares in issue as at 31 December 2020.

Other than as disclosed above, as at 31 December 2020, the Directors have not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Directors' and chief executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporations" above, at no time during the year ended 31 December 2020 and up to the date of this annual report was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or anybody corporate, and none of the Directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised such right.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save for their respective interests in the Group, none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group at any time during the year ended 31 December 2020 and up to the date of this annual report.

## IMPLEMENTATION OF THE DEED OF NON-COMPETITION

Each of the Controlling Shareholders (together with Mr. CHEN Jianyu, Fishchen Holdings Limited and Honour Gate Limited) undertook to the Company in the deed of non-competition dated 17 November 2014 that each of them will not and will procure his/its respective close associates and/or controlled persons and/or controlled companies not to be interested or engage in business which competes with or is similar to the Group's business and to refer any potential business opportunity to the Company for consideration before engaging in or becoming interested in a restricted business. Please refer to the section headed "Relationship with Controlling Shareholders" in the Prospectus for further details of the deed of non-competition.

The Independent Non-executive Directors have conducted an annual review of the implementation of the deed of non-competition and any decision in relation to new business opportunities referred to the Company during the year ended 31 December 2020. There was no particular situation rendering compliance with and implementation of the deed of non-competition questionable.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a Controlling Shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2020 and up to the date of this annual report.

## SHARE OPTION SCHEME

**Post-IPO Share Option Scheme**

The Company has currently adopted a share options scheme, namely the Post-IPO Share Option Scheme.

As at 31 December 2020, the total number of options granted under the Post-IPO Share Option Scheme was 146,160,000, which represented approximately 9.45% of the Shares in issue as at the date of this annual report. As at 31 December 2020, 30,050,000 options granted under the Post-IPO Share Option Scheme, which represented approximately 1.94% of the Shares in issue as at 31 December 2020 and the date of this annual report, were vested to the named grantees. As at 31 December 2020, 8,590,000 options granted under Post-IPO Share Option Scheme, which represented approximately 0.56% of the Shares in issue as at 31 December 2020 and the date of this annual report, were expected to be vested upon the relevant annual performance targets having been fulfilled and confirmed.

The table below sets out details of the outstanding options granted to the grantees under the Post-IPO Share Option Scheme and movements during the year ended 31 December 2020:

| | | | | | | Number of Shares | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Date of Grant | Vesting schedule | Option period | Exercise price | Closing price immediately before the date on which the options were granted | Granted on the date of grant | Outstanding as at 1/1/2020 | Granted during the year ended 31/12/2020 | Exercised during the year ended 31/12/2020 | Cancelled/ Lapsed during the year ended 31/12/2020 | Outstanding as at 31/12/2020 |
| **Senior management** | | | | | | | | | | | |
| Mr. YANG Guangwen ("Mr. Yang") | 10/6/2015 | 25% of options on 10 June 2016, 2017, 2018 and 2019 respectively | 10 years from the date of grant | HK$3.934 | HK$3.62 | 3,000,000(1) | 3,000,000 | – | – | – | 3,000,000 |
| Mr. Yang | 27/3/2017 | 50% of options on 30 June 2017 and 25% of options on 30 June 2018 and 2019 respectively | 10 years from the date of grant | HK$1.256 | HK$1.24 | 3,000,000(3) | 3,000,000 | – | – | – | 3,000,000 |
| Mr. Yang | 21/1/2020 | 8,000,000 options on 31 December 2021 and 10,000,000 options on 31 December 2022, subject to performance targets | 8 May 2020 to 21 January 2024 | HK$0.1804 | HK$0.154 | 18,000,000(6) | – | 18,000,000 | – | – | 18,000,000 |
| Ms. XU Yiqing ("Ms. Xu") | 27/3/2017 | 25% of options on 31 December 2017, 2018, 2019 and 2020 respectively | 10 years from the date of grant | HK$1.256 | HK$1.24 | 3,000,000(3) | 3,000,000 | – | – | – | 3,000,000 |

| Name | Date of Grant | Vesting schedule | Option period | Exercise price | Closing price immediately before the date on which the options were granted | Number of Shares: Granted on the date of grant | Outstanding as at 1/1/2020 | Granted during the year ended 31/12/2020 | Exercised during the year ended 31/12/2020 | Cancelled/Lapsed during the year ended 31/12/2020 | Outstanding as at 31/12/2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Ms. Xu | 21/1/2020 | 7,000,000 options (5,250,000 of which are subject to performance targets) on 31 December 2020, and 31 December 2021 respectively and 8,000,000 options (6,000,000 of which are subject to performance targets) on 31 December 2022 | 8 May 2020 to 21 January 2024 | HK$0.1804 | HK$0.154 | 22,000,000[(6)] | – | 22,000,000 | – | – | 22,000,000 |
| Ms. WEI Yulan | 27/3/2017 | 25% of options on 31 December 2017, 2018, 2019 and 2020 respectively | 10 years from the date of grant | HK$1.256 | HK$1.24 | 600,000[(3)] | 600,000 | – | – | – | 600,000 |
| Ms. TU Qin ("Ms. Tu") | 13/11/2017 | 1/3 of options on 13 November 2018, 2019 and 2020 respectively | 10 years from the date of grant | HK$1.026 | HK$1.00 | 15,000,000[(5)] | 15,000,000 | – | – | – | 15,000,000 |
| Ms. Tu | 21/1/2020 | 10,000,000 options on 31 December 2020, 15,000,000 options on 31 December 2021 and 25,000,000 options on 31 December 2022, subject to performance targets | 8 May 2020 to 21 January 2024 | HK$0.1804 | HK$0.154 | 50,000,000[(6)] | – | 50,000,000 | – | – | 50,000,000 |
| Ms. LUI Mei ka | 21/1/2020 | 10% of options on 31 December 2020, 40% of options on 31 December 2021 and 50% of options on 31 December 2022, subject to performance targets | 4 years from the date of grant | HK$0.1804 | HK$0.164 | 10,000,000[(6)] | – | 10,000,000 | – | – | 10,000,000 |
| Mr. SHENG Xiang | 21/1/2020 | 1/3 of options (i.e. 4,000,000, among which 3,000,000 are subject to performance targets) on 31 December 2020, 2021, 2022 respectively | 4 years from the date of grant | HK$0.1804 | HK$0.164 | 12,000,000[(6)] | – | 12,000,000 | – | – | 12,000,000 |

| | | | | | | Number of Shares | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Date of Grant | Vesting schedule | Option period | Exercise price | Closing price immediately before the date on which the options were granted | Granted on the date of grant | Outstanding as at 1/1/2020 | Granted during the year ended 31/12/2020 | Exercised during the year ended 31/12/2020 | Cancelled/ Lapsed during the year ended 31/12/2020 | Outstanding as at 31/12/2020 |
| **Other Grantees** | | | | | | | | | | | |
| 1 other grantee | 5/7/2016 | 25% of options on 31 December 2016, 2017, 2018 and 2019 respectively | 10 years from the date of grant | HK$1.634 | HK1.57 | 1,000,000[(2)] | – | – | – | – | – |
| 9 other grantees | 27/3/2017 | 25% of options on 31 December 2017, 2018, 2019 and 2020 respectively | 10 years from the date of grant | HK$1.256 | HK$1.24 | 3,560,000[(3)] | 2,700,000 | – | – | – | 2,700,000 |
| 2 other grantees | 15/5/2017 | 25% of options on 15 May 2018, 2019, 2020 and 2021 respectively | 10 years from the date of grant | HK$1.10 | HK$1.11 | 5,000,000[(4)] | 1,500,000 | – | – | (1,500,000)[(7)] | – |
| **Total** | | | | | | **146,160,000** | | | | | **139,300,000** |

Notes:

1) On 10 June 2015, 3,000,000 share options were granted to a senior management with exercise price of HK$3.934 per Share, which represents the highest of: (i) the closing price of HK$3.69 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 10 June 2015; (ii) the average of the closing price of HK$3.934 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US$0.0000001.

2) On 5 July 2016, 1,000,000 share options were granted to an eligible participant with exercise price of HK$1.634 per Share, which represents the highest of: (i) the closing price of HK$1.42 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 5 July 2016; (ii) the average of the closing price of HK$1.634 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US$0.0000001.

3) On 27 March 2017, 10,160,000 share options were granted to three senior management and other 9 eligible participants with exercise price of HK$1.256 per Share, which represents the highest of: (i) the closing price of HK$1.23 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 27 March 2017; (ii) the average of the closing price of HK$1.256 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US$0.0000001.

4) On 15 May 2017, 5,000,000 share options were granted to two eligible participants with exercise price of HK$1.10 per Share, which represents the highest of: (i) the closing price of HK$1.10 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 15 May 2017; (ii) the average of the closing price of HK$1.096 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US$0.0000001.

5) On 13 November 2017, 15,000,000 share options were granted to a senior management with exercise price of HK$1.026 per Share, which represents the highest of: (i) the closing price of HK$0.99 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 13 November 2017; (ii) the average of the closing price of HK$1.026 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US$0.0000001.

6) On 21 January 2020, 112,000,000 share options, of which 90,000,000 share options (the "Conditional Grant") were subject to the approval of the independent Shareholders, were granted to 5 senior management with exercise price of HK$0.1804 per Share, which represents the highest of: (i) the closing price of HK$0.165 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer of the Share Options, i.e. 21 January 2020; (ii) the average of the closing price of HK$0.1804 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of offer of the Share Options, i.e. 21 January 2020; and (iii) the nominal value of a Share of US$0.0000001. At the extraordinary general meeting of the Company held on 8 May 2020, the resolutions in respect of approving the Conditional Grant were duly passed by the independent Shareholders. For details, please refer to the Company's announcement dated 21 January 2020, circular dated 8 April 2020 and poll results announcement dated 8 May 2020.

7) 1,500,000 share options granted to other grantees lapsed immediately upon their resignation from the Company during the year ended 31 December 2020.

**Summary of the Post-IPO Share Option Scheme**

| | | |
|---|---|---|
| 1. | Purpose | To provide an incentive or reward for the participants for their contribution or potential contribution to the Company and/or any of its subsidiaries. |
| 2. | Eligible Participants | Full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries, and suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, has contributed or will contribute to the Group and whom the Board may in its absolute discretion select and think fit. |
| 3. | Maximum number of shares | The total number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme is 150,000,000 Shares which is equivalent to 12.50% and 9.70% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.<br><br>The maximum number of Shares that may be issued upon exercise of all outstanding options granted and yet to be granted under the Post-IPO Share Option Scheme and any other schemes must not in aggregate exceed 30% of the total number of Shares in issue from time to time. |
| 4. | Maximum entitlement of each participant | 1% of the issued share capital of the Company from time to time within any 12-month period up to the date of offer |
| 5. | Option period | The Board may in its absolute discretion specify conditions or performance targets at the time of grant of options which shall be satisfied by the grantee before his options may be exercised. |
| 6. | Exercise price | Exercise price shall be higher of: (1) the official closing price of the Shares as stated on the Stock Exchange's daily quotations sheets on the date of offer of option; (2) average of the official closing prices of the Shares stated on the Stock Exchange's daily quotation sheets for the 5 business days before the date of offer and (3) nominal value of a Share. |
| 7. | Remaining life of the scheme | It shall be valid and effective from 17 November 2014 to the 10th anniversary of the Listing Rule (i.e. until 5 December 2024) |

## RESTRICTED SHARE UNIT PLAN

**RSU Plan II**

The Company has currently adopted a RSU plan, namely the RSU Plan II.

As approved by the Shareholders at the annual general meeting held on 27 May 2020, the maximum number of Shares underlying all grants of RSUs under the annual mandate of the RSU Plan II given to the Directors shall not exceed 45,000,000 Shares, which represented approximately 2.91% of the Shares in issue as at 31 December 2020 and the date of this annual report. No RSU was granted under the RSU Plan II from the date of its adoption up to the date of this annual report.

1. Purpose

   To reward the participants for their contribution to the success of the Group and to provide incentives to them to further contribute to the Group, and to attract suitable personnel for further development to the Group.

2. Eligible Participants

   (i) Full-time employees or officers (including executive, non-executive and independent non-executive Directors) of the Company;

   (ii) Full-time employees of any subsidiaries and the PRC Operating Entities;

   (iii) Suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, have contributed or will contribute to the Group; and

   (iv) Any other person who, in the absolute discretion of the Board, has contributed or will contribute to the Group.

3. Maximum number of shares

   No Award shall be granted pursuant to the RSU Plan II if as a result of such grant the aggregate number of Shares (being in a board lot or an integral multiple thereof) (or, where cash is awarded in lieu of Shares, the aggregate number of Shares as are equivalent to the amount of cash so awarded) underlying all grants made pursuant to the RSU Plan II (excluding Awards that have lapsed or been cancelled in accordance with the rules of the RSU Plan II) will exceed 3% of the total issued Shares at the relevant date of Shareholders' approval (i.e. 28 May 2018).

   If the limit of the RSU Plan II is refreshed with prior approval of the Shareholders, the total number of Shares underlying the awards shall not exceed 3% of the number of issued Shares as at the date of approval of the refreshed limit.

| | | |
|---|---|---|
| 4. | Term of the RSU Plan II | It shall be valid and effective for a period of 10 years commencing from 28 May 2018 (i.e. until 28 May 2028). |
| 5. | Grant of Award | The Board may grant an award of RSUs any time during the term of the respective RSU Plan on terms and conditions specified by it. |
| 6. | Rights attached | An award of RSUs does not carry any right to vote at general meetings of the Company. No grantee shall enjoy any right of a shareholder by virtue of the grant of award unless and until the Shares underlying the award are allotted and issued or transferred (as the case may be) to the grantee. Notwithstanding the foregoing, the Board may specify in its sole discretion that a grantee may enjoy rights to cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the award. |

## MANAGEMENT CONTRACTS

Other than the service agreements and letters of appointment of the Directors, the Company has not entered into any contract with any individuals, firms or corporate entities to manage or regulate the whole or any substantial part of any business of the Company during the year ended 31 December 2020.

## CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a Controlling Shareholder was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at as 31 December 2020 or at any time during the year ended 31 December 2020.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

**Contractual Arrangements**

*Background*

According to the Administration of Foreign Invested Telecommunications Enterprises, which was issued on 11 December 2001 and subsequently amended on 10 September 2008 and 6 February 2016, foreign ownership of companies that provide value-added telecommunication services, including the operation of online games and mobile games, is limited to 50%. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "Qualification Requirement"). Currently, none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirement. Therefore, in order for the Company to be able to carry on its business in the PRC, the Group has entered into the Contractual Arrangements to enable the Company to exercise and maintain control over operations of the PRC Contractual Entities and to consolidate these companies' financial results into the Company's results under IFRSs as if they were wholly-owned subsidiaries of the Company.

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

After the Listing, the Company kept implementing its expansion plan in target overseas markets such as Hong Kong, Taiwan, Vietnam, Korea, Thailand and Indonesia. As at 31 December 2020, expenditure amounting to RMB19,495,000 had been incurred in taking steps to satisfy the Qualification Requirement. As at 31 December 2020, the Company had generated revenue from the overseas markets which amounted to RMB6,147,000.

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

Further, as advised by our PRC Legal Advisor, the Contractual Arrangements would not be deemed as void under PRC Contract Law as they do not fall within any of the five circumstances under Section 52 of the PRC Contract Law. Pursuant to Section 52 of the PRC Contract Law, a contract is void under any of the following circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and therefore damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC Legal Advisor is of the opinion that the Contractual Arrangements do not fall within any of the five circumstances set forth in Section 52 of the PRC Contract Law, and in particular, our PRC Legal Advisor is of the view that the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance (iv) under the Section 52 of the PRC Contract Law and do not violate the provisions of the PRC Contract Law, the General Principles of the PRC Civil Law and other applicable PRC laws and regulations, except that (i) the arbitral tribunal has no power to grant injunctive relief, nor will it be able to order the winding up of the PRC Operating Entities pursuant to the current PRC laws; (ii) interim remedies or enforcement order granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognisable or enforceable in China.

*Particulars of the PRC Operating Entities*

Particulars of the PRC Operating Entities as at 31 December 2020 are presented as follows:

| Name of the PRC Operating Entities | Type of legal entity/ place of establishment and operation | Registered owners as at 31 December 2020 | Business activities |
|---|---|---|---|
| Xiamen Guanghuan | Limited liability company/ PRC | Messrs. YAO Jianjun, BI Lin, LIN Zhibin, LIN Jiabin, CAI Wensheng (subsequently transferred to Ms. CAI Shuting on 21 February 2019), Mr. SUN Zhiyan, Mr. CHEN Jianyu and Ms. CHEN Yongchun hold 39.200%, 10.560%, 3.720%, 3.720%, 5.752%, 11.624%, 22.424% and 3.000% equity interest of Xiamen Guanghuan, respectively | Investment holding, game development and distribution (no actual business for the year ended 31 December 2020) |
| Xiamen Youli | Limited liability company/ PRC | 100% held by Xiamen Guanghuan | Operation and distribution of webgames, mobile games and PC games |
| Kailuo Tianxia | Limited liability company/ PRC | 100% held by Xiamen Guanghuan | Development and operation of carrot fantasy series mobile casual games |
| Xiamen Fei Xiang Yue Investment Management Co., Ltd. ("Xiamen Fei Xiang Yue") | Limited liability company/ PRC | 100% held by Xiamen Youli | Development of real estate |

The Board considers the above PRC Operating Entities as significant to the Group in view that (i) Xiamen Youli and Kailuo Tianxia hold certain licences and permits that are essential to the operation of the business of the Group, such as the Internet Content Provider Licence, Value-added Telecommunication Operation Licence, Network Cultural Business Permit and the Internet Publication Licence; (ii) some important intellectual property rights, such as software copyright, trademarks of Carrot Fantasy series are held by Kailuo Tianxia; and (iii) Xiamen Fei Xiang Yue, being the newly setup project company, holds the land use right of a piece of land acquired by the Group on 21 July 2016 for the purpose of developing its R&D center in Xiamen, the PRC.

*Revenue, net loss and total assets subject to the structured contracts under the Contractual Arrangements*

Pursuant to the Exclusive Business Cooperation Agreements entered into between Xiamen Feiyu and the PRC Operating Entities, the services provided by Xiamen Feiyu's wholly-owned subsidiaries to the PRC Operating Entities (including provision of technical support and product development services) amounted to an aggregate of approximately RMB259,000 for the year ended 31 December 2020. The above transactions carried out during the year ended 31 December 2020 have been eliminated in the consolidated financial statements of the Group.

The revenue and net loss of the PRC Operating Entities subject to the Contractual Arrangements amounted to approximately RMB58.0 million and RMB18.7 million for the year ended 31 December 2020, respectively. The total assets and total liabilities of the PRC Operating Entities subject to the Contractual Arrangements amounted to approximately RMB419.8 million and RMB327.3 million as at 31 December 2020, respectively.

The Contractual Arrangements which were in place during the year ended 31 December 2020 are as follows:

1. Exclusive Business Cooperation Agreement dated 4 September 2014 pursuant to which Xiamen Feiyu agreed to provide exclusive technical and management consulting services to Xiamen Guanghuan, and Xiamen Guanghuan agreed to pay service fees to Xiamen Feiyu;

2. Exclusive Business Cooperation Agreements dated 31 October 2014 pursuant to which Xiamen Feiyu agreed to provide exclusive technical and management consulting services to Xiamen Youli and Kailuo Tianxia, and Xiamen Youli and Kailuo Tianxia agreed to pay service fees to Xiamen Feiyu;

3. Powers of Attorney dated 4 September 2014 pursuant to which the Relevant Shareholders irrevocably delegated the voting rights and other shareholder rights of Xiamen Guanghuan to Xiamen Feiyu or designee(s) of Xiamen Feiyu;

4. Powers of Attorney dated 31 October 2014 pursuant to which Xiamen Guanghuan irrevocably delegated the voting rights and other shareholder rights of Xiamen Youli and Kailuo Tianxia to Xiamen Feiyu or designee(s) of Xiamen Feiyu;

5. Equity Interest Pledge Agreement dated 4 September 2014 pursuant to which the Relevant Shareholders pledged all their equity interests in Xiamen Guanghuan to Xiamen Feiyu to provide security on the performance of contractual obligations of the Relevant Shareholders under the Contractual Arrangements;

6. Equity Interest Pledge Agreements dated 31 October 2014 pursuant to which Xiamen Guanghuan pledged all its equity interests in Xiamen Youli and Kailuo Tianxia to Xiamen Feiyu to provide security on the performance of contractual obligations of Xiamen Guanghuan under the Contractual Arrangements;

7. Exclusive Option Agreement dated 4 September 2014 pursuant to which the Relevant Shareholders and Xiamen Guanghuan agreed to irrevocably, unconditionally and exclusively grant an exclusive option to Xiamen Feiyu which entitles Xiamen Feiyu to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests of Xiamen Guanghuan from the Relevant Shareholders by itself or through its appointee(s); and

8. Exclusive Option Agreements dated 31 October 2014 pursuant to which Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia agreed to irrevocably, unconditionally and exclusively grant an exclusive option to Xiamen Feiyu which entitles Xiamen Feiyu to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests of Xiamen Youli and Kailuo Tianxia from Xiamen Guanghuan by itself or through its appointee(s).

Apart from the above, no new Contractual Arrangement was entered into, renewed or reproduced among the Group, PRC Contractual Entities, Xiamen Guanghuan and the Relevant Shareholders during the year ended 31 December 2020.

*The extent to which the Contractual Arrangements relate to requirements other than the foreign ownership restrictions*

In addition to the foreign ownership restrictions, investment activities in the PRC by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment, which was most recently jointly amended by the Ministry of Commerce and the National Development and Reform Commission on 28 June 2017 and became effective on 28 July 2017 (the "Catalogue") and the Special Management Measures (Negative List) for the Access of Foreign Investment (2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》) promulgated by the Ministry of Commerce and the National Development and Reform Commission on 23 June 2020 and became effective on 23 July 2020 (the "Negative List"). The Catalogue and Negative List contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign invested industries and prohibited foreign investment industries. According to the Catalogue and the Negative List, the webgame business and mobile game business that the Company currently operates are regarded as value-added telecommunications services (except for e-commerce, domestic multi-party communications, storage and forwarding categories, call centers) and internet cultural business (except for music), and fall within the restricted industry category and the prohibited industry category, respectively.

On 15 March 2019, the National People's Congress of the PRC approved the foreign investment law (the "Foreign Investment Law"), which effected on 1 January 2020 and replace the trio of existing laws regulating foreign investment in the PRC, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations.

The Foreign Investment Law embodies the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in the PRC. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the aforementioned definition of "foreign investment" in the future. In addition, the aforementioned definition of "foreign investment" contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the Stale Council to provide for contractual arrangements as a form of foreign investment.

*Impact of the Foreign Investment Law on VIE*

The "variable interest entity" (the "VIE") structure has been adopted by many fully or partially foreign-owned companies which, through its subsidiaries in the PRC, assumes control over an operating company incorporated in the PRC which holds the necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in the PRC. It will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations.

In addition, the Foreign Investment Law further specifies that foreign investments shall be conducted in line with the negative list issued by or approved to be issued by the State Council. If a foreign invested enterprise or a foreign invested entity (the "FIE") proposes to conduct business in an industry subject to foreign investment "restrictions" in the "negative list", the FIE must meet certain conditions under the "negative list" before being established. An FIE shall not conduct or engage in business in an industry subject to foreign investment "prohibitions" in the "negative list". It is uncertain whether the businesses operated by the PRC Operating Entities from time to time will be or continue to be subject to the foreign investment restrictions or prohibitions under the "negative list" to be issued in future.

Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, there will be substantial uncertainties as to whether such actions can be completed by the Group in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance requirements could materially and adversely affect the current corporate structure and business operations of the Group, as well as the ability of the Group to be or continue to be engaged in businesses subject to the foreign investment restrictions or prohibitions.

*Potential Risks to the Group*

The Contractual Arrangements, in the worst case scenario, may be regarded as invalid and illegal. As a result, the Group may be required to dispose of the business under the Contractual Arrangements and will lose rights to receive the economic benefits from the PRC Operating Entities, such that the financial results of the PRC Operating Entities would no longer be consolidated into the Company's financial results and the Company will have to de-recognise assets and liabilities of the PRC Operating Entities according to the relevant accounting standards. If the Company no longer has a sustainable business after such disposal, the Stock Exchange may delist the Company.

*Measures adopted by the Company to mitigate against any potential risk arising from the Foreign Investment Law*

The Foreign Investment Law was approved by the National People's Congress of the PRC on 15 March 2019 and effected on 1 January 2020. As aforementioned, there are uncertainties with respect to the interpretation and implementation of the newly enacted Foreign Investment Law, the Board will closely monitor the development of the Foreign Investment Law with the help of the Company's PRC legal adviser, including but not limited to any new negative list issued by or approved to be issued by the State Council, or any future laws, administrative regulations or provisions prescribed by relevant governmental authorities. The Company will then discuss with its PRC legal adviser in order to assess any possible impact arising from the development of the Foreign Investment Law on the Contractual Arrangements and the business operation of the Group.

In case there would be material and adverse effect on the Group arising from the Foreign Investment Law, the Company will disclose, as soon as possible: (i) updates of material development to the Foreign Investment Law as and when it occurs; and (ii) specific measures taken by the Company to fully comply with the development to the Foreign Investment Law supported by a PRC legal opinion and any material impact of the development of the Foreign Investment Law on the Company's operations and financial position.

*Reasons for using the Contractual Arrangements*

As disclosed in the Prospectus, in order to achieve the Group's business purposes and be in line with common practice in industries in the PRC subject to foreign investment restrictions, we have adopted the Contractual Arrangements to exercise and maintain control over the operations of the PRC Operating Entities, obtain their entire economic benefits and prevent leakage of the assets and values of the PRC Operating Entities to their shareholders in the PRC.

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

Risk associated with the Contractual Arrangements

(i) The Company principally rely on dividends and other distributions on equity paid by Xiamen Feiyu to fund any cash and financing requirements the Company may have. Any limitation on Xiamen Feiyu's ability to make payments to us, or the tax implications of making payments to us, could have a material adverse effect on our financial condition and our ability to conduct our business;

(ii) PRC regulations of loans to and direct investment in PRC entities by offshore holding companies may delay or prevent us from transferring funds to Xiamen Feiyu;

(iii) If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, the Company could be subject to severe penalties or be forced to relinquish our interests in those operations;

(iv) Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and the PRC Contractual Entities may fail to perform their obligations under our Contractual Arrangements;

(v) The Company may lose the ability to use and enjoy assets held by our PRC Operating Entities that are critical to the operation of our business if our PRC Operating Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding;

(vi) Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that the Company owe additional taxes could substantially reduce our combined net income and the value of your investment;

(vii) The Company may be subject to higher income tax rates and incur additional taxes as a result of the Contractual Arrangements, which may increase our tax expenses and decrease our net profit margin;

(viii) Relevant Shareholders may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests;

(ix) The Company conduct a substantial portion of our business operation in the PRC through the PRC Operating Entities by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws; and

(x) If the Company exercise the option to acquire equity ownership of the PRC Contractual Entities, the ownership transfer may subject us to substantial costs.

Mitigation actions taken by the Company

(i) Feiyu Hong Kong has been gradually building up a track record of business operations for the purpose of being qualified as a resident of Hong Kong in order to enjoy the preferential withholding tax treatment under the tax treaty with respect to dividends paid by Xiamen Feiyu to Feiyu Hong Kong.

(ii) Suitable management has been assigned to the PRC Operating Entities to report regularly to the Group in relation to major issues arising from implementation of the Contractual Arrangements and suitable reporting system in line with the Group's financial reporting practice in the PRC are also in place to ensure that the Group would have full access and control over the books and records of the PRC Operating Entities and to obtain financial information monthly to ensure proper financial record are kept.

(iii) Pursuant to the Exclusive Business Cooperation Agreement(s), in the event that one or more of the provisions of the agreement(s) are found to be invalid, illegal or unenforceable by the court and arbitral institution with competent jurisdiction in any aspect in accordance with any laws or regulations, the validity, legality or enforceability of the remaining provisions of the agreement(s) shall not be affected or prejudiced in any aspect. The parties shall negotiate in good faith to replace such invalid, illegal or unenforceable provisions with effective provisions that accomplish the intentions of the parties to the greatest extent permitted by law, and the economic effect of such effective provisions shall be as close as possible to the economic effect of those invalid, illegal or unenforceable provisions.

(iv) Pursuant to the Exclusive Business Cooperation Agreement(s), the Powers of Attorney and the Equity Interest Pledge Agreement(s), to the extent permitted by PRC laws, the arbitration tribunal may grant any remedies in accordance with the provisions of the aforementioned agreements and applicable laws of China, including preliminary and permanent injunctive relief (such as injunction against carrying out business activities, or to compel the transfer of assets), specific performance of contractual obligations, remedies concerning the equity interest or assets of the PRC Operating Entities and awards directing PRC Operating Entities to conduct liquidation. To the extent permitted by PRC laws, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, either Party may seek preliminary injunctive relief or other interlocutory remedies from a court with competent jurisdiction to facilitate the arbitration.

(v) Pursuant to the Exclusive Business Cooperation Agreement(s), the PRC Contractual Entities granted irrevocable and exclusive rights to Xiamen Feiyu, which entitles Xiamen Feiyu to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the assets of the PRC Contractual Entities at lowest price permitted by PRC laws, by itself or through its appointee(s).

(vi) The Contractual Arrangements will not be challenged by the PRC tax authorities or other government authorities, provided that Xiamen Feiyu and the PRC Operating Entities implement the Contractual Arrangements in accordance with the terms of the structured contracts, unless the PRC tax authorities determine that such transactions are not conducted on an arm's length basis.

(vii) Although Xiamen Feiyu was not entitled any preferential income tax treatment during the year ended 31 December 2020, it recorded an accumulated loss which can be carried forward against future taxable income. Besides, Xiamen Feiyu will gradually building up a track record of business operations for the purpose of applying qualifications in order to enjoy the preferential tax treatment.

(viii) The Group has worked closely and will continue to work closely with the PRC legal advisors and the management of the PRC Operating Entities on the update of rules and regulations of the PRC to monitor the continue compliance of the rules and regulations by the PRC Operating Entities as to their conduct of business and Contractual Arrangements. If our corporate and contractual structures were deemed by the competent authorities to be illegal, either in whole or in part, the Company will modify such structures to comply with regulatory requirements. And the Contractual Arrangements were narrowly tailored to minimize the potential conflict with relevant laws and regulations.

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

*Waiver from the Stock Exchange*

As Messrs. YAO Jianjun, BI Lin, CHEN Jianyu, LIN Jiabin and LIN Zhibin are the Executive Directors, and where applicable, Controlling Shareholders or substantial Shareholders, they are the Company's connected persons pursuant to Rule 14A.07 of the Listing Rules. Each of the PRC Contractual Entities is directly or indirectly controlled by the Controlling Shareholders and the Executive Directors, they are therefore each an associate of the Controlling Shareholders and the Executive Directors, and a connected person of the Company pursuant to Rule 14A.12(1)(c) of the Listing Rules.

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

*Material change in relation to the Contractual Arrangements*

There is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended 31 December 2020.

*Unwinding the Contractual Arrangements*

The Company will unwind the Contractual Arrangements as soon as the laws allows the business of PRC Operating entities to be operated without the Contractual Arrangements.

However, for the year ended 31 December 2020, none of the Contractual Arrangements have been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements has been removed.

*Annual Review*

The Directors, including the Independent Non-executive Directors, have reviewed each of the Contractual Arrangements set out above 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 agreement governing them on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Independent Non-executive Directors have also reviewed and confirmed that:

1. the transactions carried out during the year ended 31 December 2020 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and have been operated so that the revenue generated by the PRC Contractual Entities has been mainly retained by the Group;

2. no dividends or other distributions have been made by the PRC Contractual Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and

3. there was no new contract entered into, renewed or reproduced between the Group and the PRC Contractual Entities during the year ended 31 December 2020.

Further, the Company's auditors, Ernst & Young, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing their conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules.

A copy of the auditors' letter on the continuing connected transactions of the Group for the year ended 31 December 2020 has been provided by the Company to the Stock Exchange.

## RELATED PARTY TRANSACTIONS

The related party transactions which were undertaken in 2020 are set out in Note 31 to the financial statements in this annual report (other than the above-mentioned). For those related party transactions which constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed "Report of Directors – Non-exempt Continuing Connected Transactions") of the Company under the Listing Rules, the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules, where applicable.

None of the related party transactions as disclosed in Note 31 to the financial statements in the annual report constituted connected transactions under the Listing Rules.

## PRE-EMPTIVE RIGHTS

There is no pre-emptive rights provision under the Articles of Association or the Companies Law which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for securities transactions by the Directors. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the year ended 31 December 2020.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of noncompliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2020.

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

During the year ended 31 December 2020, neither the Company, its subsidiaries nor any of the PRC Operating Entities has purchased, sold or redeemed any of the Company's listed securities.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available and to the best of the Directors' knowledge, information and belief on the date of this annual report, the Company has always maintained sufficient public float as required under the Listing Rules for the year ended 31 December 2020 and up to the date of this annual report.

## EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event during the period from 1 January 2021 to the date of this annual report.

## BOARD COMMITTEES

The Company established each of the Audit Committee, the Remuneration Committee and the Nomination Committee on 17 November 2014. For further details, please refer to pages 105 to 109 of this annual report.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. In respect of the year ended 31 December 2020, save as disclosed in this annual report, the Company has complied with all material code provisions in the CG Code.

## FINAL DIVIDEND

The Board did not declare a final dividend for the year ended 31 December 2020 (the year ended 31 December 2019: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both days inclusive, during which period no transfer of Shares will be effected, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM to be held on Friday, 28 May 2021. All transfers of Shares accompanied by the relevant Share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 24 May 2021.

## AUDITORS

The Company has appointed Ernst & Young as the auditors of the Company for the year ended 31 December 2020. The consolidated financial statements of the Group for the year ended 31 December 2020 have been audited by Ernst & Young.

Ernst & Young shall retire and being eligible, offer themselves for re-appointment, and a resolution to this effect shall be proposed at the forthcoming AGM.

On behalf of the Board
**YAO Jianjun**
*Chairman*

Hong Kong, 31 March 2021

# CORPORATE GOVERNANCE REPORT

The Board is dedicated to establishing a sound corporate governance system to ensure formality and transparency of procedures, enhance corporate value and accountability and safeguard interests of the Shareholders.

The Company has applied the principles as set out in the CG Code as its own code of corporate governance and confirms that it has complied with all code provisions under the CG Code during the year ended 31 December 2020, save for certain deviations which are explained in the relevant paragraphs in this corporate governance report.

The Company will review and commit to making necessary arrangement to comply with all the code provisions under the CG Code and the rising expectations of the Shareholders and investors.

The following sets forth a detailed discussion of the corporate governance practices adopted and complied with by the Company during the year ended 31 December 2020.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors.

Having made specific enquiry with all Directors, the Company confirmed that all members of the Board complied with the Model Code during the year ended 31 December 2020.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2020.

## THE BOARD

**Board Composition**

The Board currently comprises eight Directors, including five Executive Directors and three Independent Non-executive Directors:

| | |
|---|---|
| Executive Directors | Mr. YAO Jianjun *(Chairman and Chief Executive Officer)* |
| | Mr. CHEN Jianyu |
| | Mr. BI Lin |
| | Mr. LIN Jiabin |
| | Mr. LIN Zhibin |
| Independent Non-executive Directors | Ms. LIU Qianli |
| | Mr. LAI Xiaoling |
| | Mr. MA Suen Yee Andrew |

The existing Board composition reflects an appropriate mix of skills, experience and diversity among its members that are relevant to the Company's business model and contribute to an effective Board. All Directors, including the Independent Non-executive Directors, have contributed a wide range of valuable business experience, knowledge and professionalism to the Board, ensuring its effective and efficient operations. The Independent Non-executive Directors contribute to the Group and its strategies and policies by providing independent, constructive and informed comments.

Biographical details of the Directors are set out on pages 62 to 67 of this annual report. Save as disclosed in this annual report, and to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board.

The list of Directors (by category) is disclosed in all corporate communications issued by the Company and dispatched from time to time in accordance with the Listing Rules. The Independent Non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. The Company maintains on its website and on the website of Hong Kong Exchanges and Clearing Limited ("HKEx") an updated list of all Directors identifying their role and function and whether they are Independent Non-executive Directors.

During the year ended 31 December 2020, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules, and the Nomination Committee has reviewed the independence of each Independent Non-executive Director. The Company considers that all of the Independent Non-executive Directors to be independent in accordance with guidelines set out in the Listing Rules as at the date of this annual report.

Each of the Independent Non-executive Director has undertaken to inform the Stock Exchange and the Company as soon as practicable if there is any subsequent change of circumstances which may affect their independence.

The Company has arranged for appropriate insurance cover to protect Directors from possible legal action against them.

## ROLES AND RESPONSIBILITIES OF THE BOARD

**Management functions and Board delegation**
The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and performance and is collectively responsible for promoting success of the Group by directing and supervising its affairs. The Board has established various Board committees and has delegated different responsibilities to these committees as set out in their respective terms of reference published on HKEx's and the Company's websites.

The Board is also responsible for major matters of the Group including approving and monitoring major policies of the Group, overall strategies and budgets, risk management and internal control systems, notifiable and connected transactions, nomination of Directors and company secretary, and other significant financial and operational matters.

The day-to-day management, administration and operation of the Group are delegated to the senior management who are given clear directions as to their powers. The delegated functions are periodically reviewed by the Board. Authorization has to be obtained from the Board before any significant transaction is entered into by the senior management.

The Directors are accountable to all Shareholders for their leadership and supervision over the Group's operations, and are committed to increasing Shareholders' value. All Directors have carried out their duties in good faith and in compliance with the applicable laws and regulations, and have acted in the best interests of the Group and the Shareholders at all times.

**Supply of and Access to Information**

The Directors also have full and timely access to all relevant information, and advice and services of the joint company secretaries to guarantee full compliance with Board procedures and the relevant laws and regulations.

Under code provision A.1.6 of the CG Code, the Board may, if appropriate, authorise the Directors to seek independent professional advice at the expense of the Company. The Board has established a "Policy on Obtaining Independent Professional Advice by Directors" to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Group's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge his/her duties to the Group.

**Corporate Governance Functions**

The Board is responsible for the performance of functions of corporate governance set out in code provision D.3.1 of the CG Code, and the Board reviewed and confirmed it has performed such functions during the year ended 31 December 2020.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Chairman of the Board is Mr. YAO Jianjun and the duties of the Chief Executive Officer are also discharged by Mr. YAO Jianjun. Although the dual roles of Chairman and Chief Executive Officer is a deviation from code provision A.2.1 of the CG Code, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in an experienced and qualified person like Mr. YAO Jianjun provides the Company with strong and consistent leadership, allowing the Company to more effectively plan and implement business decisions and strategies. Besides, taking into account the ever changing business environment and the Company's new listing, Mr. YAO Jianjun's extensive experience in the industry, personal profile, and role in the Group and its historical development is appropriate and beneficial to the Group's business prospects. Therefore, the Board considers that separation of the role of the Chairman and Chief Executive Officer of Mr. YAO Jianjun may result in unnecessary costs for the Group's daily operations.

Under the leadership of Mr. YAO Jianjun, the Board is responsible for approving and supervising the Group's general development strategy, sanctioning the annual budget and business plans, consenting to material investment projects related to the Group's business development, ensuring good corporate practices and procedures are established, evaluating of the Group's performance and supervising work of the management, and ensuring that the Board acts in the best interests of the Group, operates effectively, performs the necessary duties and discusses all significant and appropriate issues of the Company's business in a timely manner. All major decisions have been made in consultation with members of the Board, which comprises experienced and high caliber individuals, appropriate Board committees and the senior management team.

All Directors are entitled to propose to include any item in the agenda of a board meeting for appropriate discussion. Mr. YAO Jianjun, as the Chairman, has appointed the company secretary to draft the Board meeting agendas. Under the assistance of the Executive Directors and the company secretary, the Chairman will ensure that all Directors are properly briefed on issues arising at board meetings and are provided, in a timely manner, with sufficient, clear, accurate, complete and reliable information required for necessary analysis based on their expertise. The Chairman will also encourage Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that board resolutions fairly reflect the Board's consensus.

As the Chief Executive Officer, Mr. YAO Jianjun has delegated sufficient authority for the operation and management of the Group's business to the Executive Directors and other senior management members, who are in-charge of daily management of the Group in every aspect, including consistent implementation of the Board's resolutions. The Executive Directors and members of senior management are accountable to the Chief Executive Officer for the Group's business operations in various aspects, while the Chief Executive Officer is accountable to the Board for the Group's operations as a whole.

The Board is of the view that there are adequate balances of power and safeguards in place. Nonetheless, the Board will continue to monitor and review the Company's current structure and make necessary changes when necessary.

## BOARD MEETINGS

Pursuant to code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communication.

The Board has held 5 Board meetings during the year ended 31 December 2020 for discussing the Group's affairs, reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Group.

The attendance records of each Director at the Board meetings (whether in person or by means of electronic communication) held during the year ended 31 December 2020 are set out below:

| Name of the Directors | Attendance/ Number of Board Meeting |
|---|---|
| **Executive Directors:** | |
| Mr. YAO Jianjun | 5/5 |
| Mr. CHEN Jianyu | 5/5 |
| Mr. BI Lin | 5/5 |
| Mr. LIN Jiabin | 5/5 |
| Mr. LIN Zhibin | 5/5 |
| **Independent Non-executive Directors:** | |
| Ms. LIU Qianli | 5/5 |
| Mr. LAI Xiaoling | 5/5 |
| Mr. MA Suen Yee Andrew | 5/5 |

Pursuant to code provision A.2.7 of the CG Code, the Chairman should at least annually hold meetings with the independent non-executive Directors without the presence of other Directors. The Chairman met with the Independent Non-executive Directors (without presence of the other Executive Directors) once during the year ended 31 December 2020 for discussing the investment and strategic planning of the Group.

**Practices and Conduct of Meetings**

Annual meeting schedules and draft agendas of each meeting are made available to the Directors in advance. Notice of regular Board meetings are served to all Directors at least 14 days before the meetings to give them an opportunity to attend. For other Board and committee meetings, reasonable notice is generally given.

For regular Board and Board committee meetings, all agendas, board papers, together with all applicable, complete and reliable information are sent to all the Directors at least 3 days before each meeting to keep the Directors apprised of the latest developments and financial position of the Group and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management of the Company whenever necessary. Queries raised by the Directors should receive prompt and full response wherever possible.

All Directors may propose any business to be included in the agenda of the Board or Board committee meetings and contact the company secretary to ensure full compliance with all Board procedures and applicable regulations.

Matters discussed and resolved at Board meetings and Board committee meetings will be recorded in detail by the company secretary who shall prepare and file the minutes or resolutions. Generally, draft minutes of Board meeting are circulated to the Directors within a reasonable time after each meeting for their comments, and the final version is open for inspection by the Directors.

The Articles contain a provision requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their close associate(s) has/have a material interest. This provision has been complied with during the year ended 31 December 2020.

If a substantial Shareholder or Director has a conflict of interest in a matter to be discussed by the Board which the Board considers material, such matter shall be considered at a Board meeting instead of being resolved by written resolutions. Independent non-executive Directors who and whose close associates have no material interest in the matter should be present at such a Board meeting.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

The procedures and process of appointment, re-election and removal of the Directors have been set out in the Articles. The Nomination Committee is responsible for reviewing the Board's composition, developing and formulating relevant procedures for nomination and appointment of the Directors, monitoring appointment and succession planning of the Directors, and assessing independence of the Independent Non-executive Directors as detailed below under the sub-section headed "Nomination Committee".

According to the Articles, one-third of the Directors (or if their number is not a multiple of three, the number nearest to but no less than one-third) are subject to retirement by rotation and shall be eligible for re-election and re-appointment at least once every three years. Directors who are required to retire by rotation shall be those who have held the longest term of office since their last appointment or re-election. Any new Director appointed to fill casual vacancy shall hold office until the first general meeting of the Company after his appointment. Any Director appointed as an addition to the Board shall hold office until the next following annual general meeting of the Company.

Any other appointment, resignation, removal or re-designation of Directors will be timely disclosed to the Shareholders by announcement and shall include in such announcement the reasons given by the Director for his resignation.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of the Directors and senior management of the Group. The remuneration package of individual Directors is determined with reference to the relevant Director's experience, responsibility, performance, seniority, position, qualification and the time he/she devotes to the Group's business. The Directors may from time to time be entitled to share options and RSUs.

Details of the remuneration of each of the Directors for the year ended 31 December 2020 are set out in Note 8 to the financial statements of this annual report.

## SHAREHOLDING INTEREST OF DIRECTORS AND SENIOR MANAGEMENT

For details of the shareholding interest and short positions of the Directors and senior management of the Group, please refer to pages 76 to 77 of this annual report.

## INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

On appointment to the Board, each Director received a comprehensive induction package to ensure that he/she has a proper understanding of the business and operations of the Company and is fully aware of his/her responsibilities and obligations, compliance practice under the Listing Rules, other relevant legal and regulatory requirements and the Company's business and governance policies.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are kept updated on the statutory and regulatory development, and business and market development so as to facilitate proper discharge of their responsibilities. Continuous briefing and professional development were arranged by the Group and its legal advisers for the Directors.

All Directors participated in professional development training courses arranged by the Group's legal adviser relating to roles, functions and duties of a listed company director, continuing and disclosure obligations of listed companies and its directors, and amendments to the Listing Rules and SFO in relation to inside information. A summary of training received by the Directors for the year ended 31 December 2020 according to the records provided by the Directors is as follows:

| Name of the Directors | Attending relevant training sessions |
|---|---|
| **Executive Directors:** | |
| Mr. YAO Jianjun | ✓ |
| Mr. CHEN Jianyu | ✓ |
| Mr. BI Lin | ✓ |
| Mr. LIN Jiabin | ✓ |
| Mr. LIN Zhibin | ✓ |
| **Independent Non-executive Directors:** | |
| Ms. LIU Qianli | ✓ |
| Mr. LAI Xiaoling | ✓ |
| Mr. MA Suen Yee Andrew | ✓ |

## BOARD COMMITTEES

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Group's affairs. All of these three committees of the Company are governed by defined written terms of reference which are available on the Company's and HKEx's websites. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense.

**Nomination Committee**

The Board established the Nomination Committee on 17 November 2014 with written terms of reference in accordance with code provision A.5.2 of the CG Code. As at 31 December 2020 and the date of this annual report, the Nomination Committee comprised three members, the majority of whom are Independent Non-executive Directors. Mr. YAO Jianjun, who is the Chairman of the Board and Executive Director, served as the chairman of the Nomination Committee, and Ms. LIU Qianli and Mr. MA Suen Yee Andrew, both of whom are Independent Non-executive Directors, served as the committee members.

The role and functions of the Nomination Committee are set out in its written terms of reference. Its primary responsibilities include (i) conducting annual review of the structure, size and composition (including the skills, knowledge and experience) of the Board, and making recommendations on any proposed changes (if any) to the Board to complement the Company's corporate strategy; (ii) identifying, selecting and recommending individuals suitably qualified to become Board members and selecting or making recommendations to the Board on selection of individuals nominated for directorships; (iii) assessing the independence of the Independent Non-executive Directors; and (iv) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executives.

**Board Diversity**

The Board has adopted a policy (the "Board Diversity Policy") concerning diversity of Board members setting out a number of factors which the Nomination Committee would consider in reviewing and assessing the composition of the Board, and making recommendations on changes to the composition of the Board. When vacancies on the Board arise, the Nomination Committee will carry out a selection process in accordance with the Board Diversity Policy and consider all aspects of diversity set out therein, including but not limited to, gender, age, race, cultural and educational background, communication style, interpersonal skills, functional expertise, problem solving skills, professional qualifications, knowledge, industry and regional experience, and other qualities. All appointments to the Board will be based on merits against the selection criteria, having due regard to the benefits of diversity on the Board as well as the Company's own business model and specific needs arising from time to time. The Nomination Committee will review the Board Diversity Policy and its effectiveness regularly, monitor its implementation by conducting review of the Board composition under diversified perspectives, including any measurable objectives that it has set for implementing the policy, and progress on achieving those objectives and discuss any need for changes with the Board and recommend changes to the Board Diversity Policy to the Board for its consideration and approval.

During the year ended 31 December 2020, the Nomination Committee reviewed the structure, size and composition of the Board, reviewed the effectiveness of the Board Diversity Policy and its implementation, assessed the independence of the Independent Non-executive Directors, and made the recommendations to the Board on the re-appointment of retiring Directors.

The attendance records of the Nomination Committee meeting held during the year ended 31 December 2020 are set out below:

| **Name of members of the Nomination Committee** | **Attendance/ Number of Nomination Committee meeting** |
|---|---|
| *Chairman:* | |
| Mr. YAO Jianjun | 1/1 |
| *Members:* | |
| Ms. LIU Qianli | 1/1 |
| Mr. MA Suen Yee Andrew | 1/1 |

**Nomination Policy**

The Board has adopted a nomination policy (the "Nomination Policy") on 29 December 2018 to assist the Board in identifying suitably qualified candidates and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors as well as providing the selection criteria and procedures adopted for making recommendations by the Nomination Committee.

A summary of the selection criteria and procedures for recommendation and selection of candidates for directorship is disclosed below.

*Selection Criteria*

In assessing the suitability of a proposed candidate, the Nomination Committee shall consider the following factors:

- reputation for integrity;
- accomplishment, experience and reputation of the relevant business of the Group;
- time to be devoted and attention to the affairs of the Company;
- diversity of the Board in all aspects, including but not limited to gender, age, cultural background, educational background, skills, knowledge and professional experience;
- compliance with the criteria of independence as prescribed under Rule 3.13 of the Listing Rules for the appointment of an Independent Non-executive Director; and
- any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

The appointment of any proposed candidate(s) to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Articles and other applicable rules and regulations.

*Nomination Procedures*

To nominate a candidate for the appointment and/or re-appointment of Directors, the procedures are as follows:

- The secretary of the Nomination Committee shall convene a meeting, and invite nominations of candidates from Board members (if any), for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members;
- Proposed candidates will be asked to submit the necessary personal information, together with their written consent to be appointed as a director of the Company and to the public disclosure of their personal data on any documents or relevant website in connection with their nomination or otherwise pursuant to applicable rules and regulatory requirements; recommendation will then be made by the Nomination Committee upon review of the relevant documents for Board's consideration and approval. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary;
- In the context of re-appointment of any existing member(s) of the Board, the Nomination Committee shall make recommendations to the Board for its consideration and recommendation, for the candidates to stand for re-election at a general meeting;
- Please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director of the Company", which is available on the Company's website, for procedures for shareholders' nomination of any candidate for election as a Director; and
- The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Board will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy.

**Remuneration Committee**

The Board established the Remuneration Committee on 17 November 2014 with written terms of reference in compliance with code provision B.1.2 of the CG Code. As at 31 December 2020 and the date of this annual report, the Remuneration Committee comprised three members, the majority of whom are Independent Non-executive Directors. Ms. LIU Qianli, an Independent Non-executive Director, served as chairwoman of the Remuneration Committee, Mr. BI Lin, an Executive Director and Mr. LAI Xiaoling, an Independent Non-executive Directors, served as the committee members.

The role and functions of the Remuneration Committee are set out in its terms of reference. The primary duties of the Remuneration Committee include, but not limited to, the following: (i) making recommendations to the Board on the Company's policy and structure for remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) determining the specific remuneration packages of the Directors and senior management; and (iii) reviewing and approving the management's performance based remuneration with reference to corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee should consult the Chairman and/or chief executive about its remuneration proposals for other Executive Directors.

The Remuneration Committee held one meeting during the year ended 31 December 2020 to review, inter alias, (i) the remuneration policy and structure; (ii) the annual remuneration packages of the Executive Directors; and (iii) other matters related to the foregoing.

The attendance records of the Remuneration Committee meetings held during the year ended 31 December 2020 are set out below:

| Name of members of the Remuneration Committee | Attendance/ Number of Remuneration Committee meeting |
|---|---|
| *Chairwoman:* | |
| Ms. LIU Qianli | 1/1 |
| *Members:* | |
| Mr. BI Lin | 1/1 |
| Mr. LAI Xiaoling | 1/1 |

Details of the remuneration of each of the Directors for the year ended 31 December 2020 are set out in Note 8 to the financial statements of this annual report.

**Audit Committee**

The Board established the Audit Committee on 17 November 2014 with written terms of reference in accordance with code provision C.3.3 of the CG Code. The written terms of reference were updated on 28 December 2015 and 27 December 2018 respectively in light of the applicable amendments to the CG Code. As at 31 December 2020 and the date of this annual report, the Audit Committee comprised three members, all of whom are Independent Non-executive Directors. Ms. LIU Qianli, an Independent Non-executive Director with appropriate professional qualifications required under Rule 3.10(2) and 3.21 of the Listing Rules, served as chairwoman of the Audit Committee, and Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, both of whom are Independent Non-executive Directors, served as committee members. The Board considered that the members of the Audit Committee possess sufficient professional knowledge and experience relating to accounting and financial management for discharge of their responsibilities.

The role and functions of the Audit Committee are set out in its written terms of reference. The primary duties of the Audit Committee are (i) serving as a focal point for communication between the Directors, and the external auditors and the internal auditors (where an internal audit function exists) as regards their duties relating to financial and other reporting, risk management and internal control, external and internal audits and such other financial and accounting matters as the Board determines from time to time; (ii) assisting the Board by providing an independent view of effectiveness of the financial reporting process, risk management and internal control systems of the Group; (iii) overseeing the audit process and performing other duties and responsibilities as assigned by the Board; (iv) reviewing and monitoring the relationship between the external auditors and the Group, especially independence and effectiveness of the external auditors; (v) reviewing the Group's financial information, ensuring compliance with accounting standards and reviewing significant adjustments from audit; and (vi) reviewing the Company's financial controls, risk management and internal control systems.

The Audit Committee held three meetings during the year ended 31 December 2020 to review the annual results of the Group for the year ended 31 December 2019 and the interim results of the Group for the six months ended 30 June 2020 as well as the reports prepared by the external auditors relating to accounting and internal control issues and major findings in the course of audit/review. In addition, it reviewed the Company's compliance with the CG Code and the regulatory and statutory requirements, and the disclosure in this Corporate Governance Report. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors.

The attendance records of the Audit Committee meetings held during the year ended 31 December 2020 are set out below:

| Name of members of the Audit Committee | Attendance/ Number of Audit Committee meeting |
|---|---|
| *Chairwoman:* | |
| Ms. LIU Qianli | 3/3 |
| *Members:* | |
| Mr. LAI Xiaoling | 3/3 |
| Mr. MA Suen Yee Andrew | 3/3 |

The Group's annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee on 31 March 2021, and it considered that the said annual results are prepared in accordance with applicable accounting standards, rules and regulations, and appropriate disclosures have been duly made.

## REMUNERATION OF EXTERNAL AUDITORS

The statement of the external auditors of the Company, Ernst & Young, about their reporting responsibilities on the financial statements is set out in the independent auditors' report on pages 116 to 120.

The external auditors of the Company will be invited to attend the forthcoming annual general meeting to answer questions about conduct of the audit, preparation for and contents of the auditor's report and auditor's independence.

During the year ended 31 December 2020, the total fee paid/payable to Ernst & Young in respect of audit services is set out below:

| Items of auditors' service | Amount (RMB'000) |
|---|---|
| Audit service | 1,950 |
| Total | 1,950 |

The Audit Committee is responsible for making recommendations to the Board as to the appointment, reappointment and removal of external auditors. Such appointment, re-appointment and removal are subject to the approval by the Board and the Shareholders in the general meetings of the Company.

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2020 which give a true and fair view of the financial position of the Group as well as the operating results and cash flows during that year.

The Directors consider that in preparing for the financial statements, the Group has ensured that statutory requirements are met, appropriate and consistently adopted accounting policies are applied, and judgments and estimates which are reasonable and prudent in accordance with the applicable accounting standards are made.

The Directors are responsible for ensuring that proper accounting records are kept so that the Group could prepare financial statements in accordance with statutory requirements and the Group's accounting policies, safeguarding the assets of the Group and taking reasonable steps for preventing and detecting fraud and other irregularities within the Group. They are also responsible for presenting balanced, clear and understandable annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules and statutory provisions.

The senior management has provided such explanation and information, and monthly updates to the Board as are necessary to enable the Board to carry out a balanced and informed assessment of the financial information, position and prospect of the Group.

During the year ended 31 December 2020, 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.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Group's risk management and internal control systems have been designed to safeguard the assets of the Group, assure proper maintenance of accounting records, and ensure compliance with the relevant laws and regulations by the Group.

The Board has overall responsibility for maintaining a sound and effective risk management and internal control systems of the Group, which includes a defined management structure with limits of authority, and is designed to ensure proper application of accounting standards, provision of reliable financial information for internal use, publication and compliance with the relevant laws and regulations. The Board reviews the risk management and internal control systems on an annual basis through the Audit Committee.

To assist the Audit Committee in its oversight and monitoring activities, the Group maintains an independent internal audit function, which provides objective assurance to the Audit Committee that the systems of risk management and internal control is effective and operating as intended. The mission of internal audit is to provide the Board and the management with independent and objective assessment of the Group's internal control systems, guidance for improving risk management, proactive support to improve the Group's control posture and independent investigations regarding certain allegations of violations of the code of conduct which applies to all employees and other policies of the Company.

In respect of the year ended 31 December 2020, the Board considered the risk management and internal control system effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management functions of the Group have been identified. During the review, the Board also considered the resources, qualification/experience of staff of the Group's accounting and financial reporting function, and their training and budget to be adequate.

**Process used to identify, evaluate and manage significant risks**

The Group improves its management capability and adaptability, and further ensures the realisation of the business objectives and a sustainable growth through active and systematic identification, assessment and response to risk issues occurred in the operation process. On preparation of the annual work plans and special plans, those risk factors that may affect the achievement of the goals were comprehensively identified and assessed by each department of the Group, and corresponding risk response measures and annual risk management plan were formulated. The management identified material risks on the corporation level based thereon as the key area of the annual risk management, and reviewed and assessed the implementation of the risk management plan in the middle and at the end of the year.

**Main Features of Risk Management and Internal Control System**

The Group adopts a holistic risk management and internal controls framework to proactively manage risks. This framework is put into effect by the Board, with the Audit Committee to support the Board in monitoring risk exposures, the design and operating effectiveness of the underlying risk management and internal controls systems. The roles of the Board, the Audit Committee, the management and the internal audit function in the risk management and internal control systems of the Company are as follows:

**The Board**

- maintains a sound and effective internal control system
- monitors the performance of the internal control system
- sets high ethical and moral standards and monitoring management compliance with these standards

**The Audit Committee**

- provides directives for the design and implementation of a sound and effective internal control system
- oversees the risk management and internal control systems
- reviews the Group's statement of internal control systems prior to its endorsement by the Board
- ensures the independence and transparency of the internal audit function

**The management**

- cooperates with and supporting the work of the internal audit
- designs, implementing and maintaining an effective internal control system
- supervises staff to ensure that they carry out their duties in accordance with the requirements of internal control practices
- coordinates the risk identification and assessment process, highlights identified risks to the Audit Committee, along with the status of actions taken to manage these risks

**The Internal Audit Function**

- formulates action plans to monitor the effectiveness of the internal control system
- works with various departments and monitoring their compliance with internal control practices
- conducts robust reviews and stringent testing of the internal control system and making recommendations for improvement
- provides independent and objective assurance of the effectiveness of the internal control practices

The system is developed to provide reasonable, but not absolute, assurance against material misstatement or losses and to manage, but not fully eliminate, risk of operational system failure and the Group's failure in meeting the standards.

**Supervision and Self-Assessment of the Internal Control Systems**

The Board focuses on the key elements of the internal control and continues to review the effectiveness of the Group's internal control system through the Audit Committee and its subordinate Audit Department. The Company established the internal audit function, which independently reviews, supervises and evaluates internal control activities regularly and whenever necessary based on possible risks and degrees of importance involved in various businesses and procedures and directly reports to the Audit Committee. The Audit Committee continuously supervises and reviews the soundness and effectiveness of the Group's financial reporting and internal control system on an ongoing basis. The Audit Committee will then report to the Board after due review of the effectiveness of the Group's system of internal controls. The Board considers the works and findings of the Audit Committee in forming its own view on the effectiveness of the system.

**For handling and dissemination of Inside Information**

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Company:

- is aware of its obligations under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or it is the subject of a decision unless it falls within the SFO safe harbours;
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Stock Exchange in 2008 respectively;
- has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information; and
- has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the Executive Directors, Investor Relations Director are authorised to communicate with parties outside the Group.

The risk management and internal control systems of the Group will be constantly optimised to match the continuous business development of the Group.

## SHAREHOLDERS' RIGHTS

To safeguard the Shareholders' interests and rights, separate resolutions are proposed for each substantially separate issue at general meetings, including the election of individual Directors. Except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be published on the websites of the Company and HKEx after each general meeting.

**Putting Forward Proposals at General Meetings**

The annual general meeting and other general meetings of the Company are the primary forum for communication between the Company and its Shareholders. The Company shall provide the Shareholders with information on the resolution(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable the Shareholders to make an informed decision on the proposed resolution(s).

There is no provision in the Articles of Association or the Companies Law for the Shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the below paragraph.

With regard to nomination of any candidate for election as a Director, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director of the Company", which is available on the Company's website.

**Convening an Extraordinary General Meeting by Shareholders**

Pursuant to article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company may, by written requisition to the Board or the company secretary of the Company, require an extraordinary general meeting to be called by the Board for transaction of business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) may do so himself (themselves) in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Board believes that effective communication with investors is essential for building investors' confidence and attracting new investors with improved understanding of the Group's business performance and strategies. The Group also recognises the importance of transparent and timely disclosure of corporate information which will enable investors to make informed investment decisions.

General meetings of the Company are expected to provide a forum for communication between the Board and the Shareholders. The Chairman of the Board, and chairman/chairwoman (where applicable) of the Nomination Committee, Remuneration Committee and Audit Committee and, in their absence, other members of the respective committees are available to answer questions at general meetings. The Chairman shall ensure that appropriate steps are taken to provide effective communication with the Shareholders and that their views are communicated to the Board as a whole.

The Company has disclosed necessary information and updates on the Group's business developments and operations, financial information and corporate governance measures to the Shareholders in compliance with Listing Rules and such are made available for public access on the Company's website. The Company has devised the "Shareholders' Communication Policy" since the Listing Date, which has also been made available on the Company's website and shall be reviewed on a regular basis to ensure its effectiveness.

Shareholders may also make a request for the Company's information any time to the extent that such information is publicly available. Corporate communication of the Company will be provided to the Shareholders in plain language and in both Chinese and English versions to facilitate their understanding. Shareholders have a right to choose the language (either Chinese or English) or means of receipt of corporate communications (in hard copy or through electronic means).

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

| | |
|---|---|
| Address: | Floor 2, Block 2, No. 14 Wanghai Road, RuanjianYuan Two, Siming District, Xiamen, Fujian Province, PRC |
| Email: | IR@feiyu.com |

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

Shareholders should direct enquires about their shareholdings to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

## GENERAL MEETINGS

Annual general meeting proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices. The notice of annual general meeting is distributed to all shareholders at least 20 clear business days prior to the annual general meeting and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of the annual general meeting exercises his power under the Articles to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the beginning of the meeting. Poll voting results are posted on the Company's website on the day of the annual general meeting.

During the year ended 31 December 2020, two extraordinary general meeting and one annual general meeting were held. The attendance record of each Director and joint company secretaries at the extraordinary general meetings and annual general meeting are set out below:

| Name of the Directors | Attendance/ Number of annual general meeting | Attendance/ Number of extraordinary general meeting |
|---|---|---|
| **Executive Directors:** | | |
| Mr. YAO Jianjun | 1/1 | 2/2 |
| Mr. CHEN Jianyu | 1/1 | 2/2 |
| Mr. BI Lin | 1/1 | 2/2 |
| Mr. LIN Jiabin | 1/1 | 2/2 |
| Mr. LIN Zhibin | 1/1 | 2/2 |
| **Independent non-executive Directors:** | | |
| Ms. LIU Qianli | 1/1 | 2/2 |
| Mr. LAI Xiaoling | 1/1 | 2/2 |
| Mr. MA Suen Yee Andrew | 1/1 | 2/2 |
| **Joint Company Secretaries** | | |
| Ms. LUI Mei Ka | 1/1 | 2/2 |
| Ms. WEI Yulan | 1/1 | 2/2 |

The forthcoming AGM will be held on Friday, 28 May 2021. The notice of the AGM will be sent to the Shareholders at least 20 clear business days before the AGM.

## CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020, the Company has not made any changes to its Memorandum and Articles of Association.

## DIVIDEND POLICY

The Board has adopted a dividend policy ("Dividend Policy") on 29 December 2018 with an aim to provide the Shareholders with stable and sustainable returns. In proposing any dividend payout, the Board shall take into account the Group's actual and expected performance and financial conditions, retained earnings and distributable reserves, liquidity and cash flow, expected requirements for working capital and future investment, restrictions on payment of dividends that may be imposed on the Company by any of its financing arrangements and other factors that the Board deems appropriate. There can be no assurance by the Board that a dividend will be proposed or declared in any particular amount for any given period and the declaration or distribution of the dividend by the Company is also subject to compliance with applicable laws and regulations. The Board shall continually review this policy from time to time.

## JOINT COMPANY SECRETARIES

Ms. LUI Mei Ka, the Chief Financial Officer and Ms. WEI Yulan, the financial controller who have day-to-day knowledge of the Group's affairs have been appointed as joint company secretaries of the Company. All Directors have access to the advice and services of the joint company secretaries to ensure that the Board procedures, and all applicable law, rules and regulations are followed. Biographical details of the joint company secretaries are set out on pages 69 of this annual report.

Each of the joint company secretaries has complied with requirements of Rule 3.29 of the Listing Rules by receiving relevant professional training for not less than 15 hours during the year ended 31 December 2020.

# INDEPENDENT AUDITOR'S REPORT

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

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

安永會計師事務所
香港中環
添美道1號
中信大廈
22樓

電話: +852 2846 9888
傳真: +852 2868 4432
www.ey.com

**To the shareholders of Feiyu Technology International Company Ltd.**
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Feiyu Technology International Company Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 121 to 203, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

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

## KEY AUDIT MATTERS (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Recoverable amount of goodwill | |
| As at 31 December 2020, the Group reported RMB20,121,000 in goodwill as a result of the previous acquisitions. On an annual basis, the Group assesses the recoverable amount of goodwill which relies on key assumptions and judgements made by management concerning the estimated value of future cash flows, associated discount rates, and growth rates based on their view of future business prospects.<br><br>The Group's disclosures about goodwill are included in note 15 to the financial statements. | Our audit procedures included, among others, evaluating the forecast by comparing the forecasts with the historical performance of the respective CGUs and other supporting information. We also involved our internal valuation experts to assist us in evaluating the assumptions and methodologies used by management, in particular, the discount rates and long term growth rates. We also assessed the adequacy of the Group's disclosures in the financial statements of the assumptions to which the outcome of the impairment test is most sensitive. |
| Fair value measurement of financial assets | |
| As at 31 December 2020, the Group had investments in financial assets such as certain equity investments designated at fair value through other comprehensive income with a total amount of RMB37,712,000. These investments are classified as level 3 in the fair value hierarchy, as their fair values are measured using valuation techniques with significant unobservable inputs. Fair value measurement can be a subjective area and more so for areas of the market reliant on the model-based valuation or with weak liquidity and price discovery. The selection of valuation techniques for these financial assets can be subjective and is so for assumptions. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.<br><br>The fair value of these investments, valuation techniques and significant unobservable inputs used in the measurement of the fair value of these investments are included in note 33 to the financial statements. | For certain equity investments designated at fair value through other comprehensive income, we involved our internal valuation experts to assist us in evaluating the valuation techniques against industry practice and valuation guidelines, comparing assumptions used against industry benchmarks, investigating significant differences and performing our own independent valuations where applicable.<br><br>We also assessed the adequacy of the Group's disclosures in the financial statements of the fair value hierarchy of the investments. |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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, actions taken to eliminate threats or safeguards applied.

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 Lawrence K.W. Lau.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

31 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| **REVENUE** | 5 | 117,004 | 112,851 |
| Cost of sales | | (34,585) | (34,781) |
| **Gross profit** | | 82,419 | 78,070 |
| Other income and gains | 5 | 33,902 | 14,333 |
| Selling and distribution expenses | | (17,939) | (29,257) |
| Administrative expenses | | (43,647) | (75,387) |
| Research and development costs | | (56,769) | (70,448) |
| Other expenses | | (12,786) | (670) |
| Finance costs | 7 | (1,706) | (2,672) |
| Share of losses of associates | 17 | (374) | (1,280) |
| **LOSS BEFORE TAX** | 6 | (16,900) | (87,311) |
| Income tax expense | 10 | (1,219) | (1,388) |
| **LOSS FOR THE YEAR** | | (18,119) | (88,699) |
| Attributable to: | | | |
| Owners of the parent | | (21,460) | (80,342) |
| Non-controlling interests | | 3,341 | (8,357) |
| | | (18,119) | (88,699) |
| **LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 12 | | |
| – Basic and diluted | | RMB(0.01) | RMB(0.05) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **LOSS FOR THE YEAR** | **(18,119)** | (88,699) |
| **OTHER COMPREHENSIVE INCOME** | | |
| **Other comprehensive income that may be reclassified to profit or loss in subsequent periods:** | | |
| Debt investments at fair value through other comprehensive income: | | |
| Changes in fair value | **932** | 3,426 |
| Reclassification adjustments for losses included in the consolidated statement of profit or loss | **–** | 86 |
| Exchange differences on translation of financial statements | **(9,566)** | 3,825 |
| **Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods** | **(8,634)** | 7,337 |
| **Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:** | | |
| Equity investments designated at fair value through other comprehensive income: | | |
| Changes in fair value | **4,656** | 12,819 |
| Income tax effect | **(1,588)** | (1,318) |
| **Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods** | **3,068** | 11,501 |
| **OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX** | **(5,566)** | 18,838 |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | **(23,685)** | (69,861) |
| Attributable to: | | |
| Owners of the parent | **(27,025)** | (61,512) |
| Non-controlling interests | **3,340** | (8,349) |
| | **(23,685)** | (69,861) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | 130,228 | 110,214 |
| Right-of-use assets | 14(a) | 104,329 | 110,804 |
| Goodwill | 15 | 20,121 | 20,121 |
| Other intangible assets | 16 | 1,107 | 2,898 |
| Investments in associates | 17 | 18,023 | 28,208 |
| Prepayments, other receivables and other assets | 20 | 17,349 | 13,781 |
| Equity investments designated at fair value through other comprehensive income | 21 | 37,712 | 23,056 |
| Debt investments at fair value through other comprehensive income | 21 | 22,025 | 23,955 |
| Financial assets at fair value through profit or loss | 21 | 78,214 | 150,905 |
| Deferred tax assets | 18 | 1,814 | 3,512 |
| Total non-current assets | | 430,922 | 487,454 |
| **CURRENT ASSETS** | | | |
| Accounts receivable and receivables due from third-party game distribution platforms and payment channels | 19 | 30,902 | 32,106 |
| Prepayments, other receivables and other assets | 20 | 21,986 | 20,302 |
| Other current assets | | 11,059 | 11,650 |
| Cash and cash equivalents | 22 | 139,194 | 179,218 |
| Total current assets | | 203,141 | 243,276 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | 23 | 65,100 | 84,362 |
| Interest-bearing bank loans | 24 | 10,000 | 69,926 |
| Lease liabilities | 14(b) | 3,696 | 4,432 |
| Tax payable | | 1,705 | 2,960 |
| Contract liabilities | 25 | 3,716 | 4,352 |
| Total current liabilities | | 84,217 | 166,032 |
| **NET CURRENT ASSETS** | | 118,924 | 77,244 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 549,846 | 564,698 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank loans | 24 | **53,840** | 46,770 |
| Lease liabilities | 14(b) | **2,578** | 5,346 |
| Deferred tax liabilities | 18 | **1,239** | 62 |
| Contract liabilities | 25 | **3,023** | 2,785 |
| Total non-current liabilities | | **60,680** | 54,963 |
| **Net assets** | | **489,166** | 509,735 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 26 | **1** | 1 |
| Share premium | 26 | **498,453** | 498,453 |
| Reserves | 28 | **(138)** | 28,163 |
| | | **498,316** | 526,617 |
| **Non-controlling interests** | | **(9,150)** | (16,882) |
| **Total equity** | | **489,166** | 509,735 |

**Yao Jianjun**
*Director*

**Chen Jianyu**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

| | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Statutory reserve RMB'000 | Equity-settled share-based payment reserve RMB'000 | Other reserve RMB'000 | Financial assets revaluation reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2019 | 1 | 498,453 | 15,995* | 146,554* | 349,089* | 36,418* | 32,910* | (492,913)* | 586,507 | (8,533) | 577,974 |
| Loss for the year | – | – | – | – | – | – | – | (80,342) | (80,342) | (8,357) | (88,699) |
| Other comprehensive income for the year: | | | | | | | | | | | |
| Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax | – | – | – | – | – | 11,501 | – | – | 11,501 | – | 11,501 |
| Changes in fair value of debt investments at fair value through other comprehensive income, net of tax | – | – | – | – | – | 3,512 | – | – | 3,512 | – | 3,512 |
| Exchange differences on translation of financial statements | – | – | – | – | – | – | 3,817 | – | 3,817 | 8 | 3,825 |
| Total comprehensive loss for the year | – | – | – | – | – | 15,013 | 3,817 | (80,342) | (61,512) | (8,349) | (69,861) |
| Transfer of revaluation reserve upon the disposal of equity investments at fair value through other comprehensive income | – | – | – | – | – | (52,060) | – | 52,060 | – | – | – |
| Equity-settled share-based payment expenses | – | – | – | 1,622 | – | – | – | – | 1,622 | – | 1,622 |
| Appropriation to statutory reserves | – | – | 2,529 | – | – | – | – | (2,529) | – | – | – |
| At 31 December 2019 | 1 | 498,453 | 18,524* | 148,176* | 349,089* | (629)* | 36,727* | (523,724)* | 526,617 | (16,882) | 509,735 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

| | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Statutory reserve RMB'000 | Equity-settled share-based payment reserve RMB'000 | Other reserve RMB'000 | Financial assets revaluation reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2020 | 1 | 498,453 | 18,524* | 148,176* | 349,089* | (629)* | 36,727* | (523,724)* | 526,617 | (16,882) | 509,735 |
| Loss for the year | – | – | – | – | – | – | – | (21,460) | (21,460) | 3,341 | (18,119) |
| Other comprehensive income for the year: | | | | | | | | | | | |
| Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax | – | – | – | – | – | 3,068 | – | – | 3,068 | – | 3,068 |
| Changes in fair value of debt investments at fair value through other comprehensive income, net of tax | – | – | – | – | – | 932 | – | – | 932 | – | 932 |
| Exchange differences on translation of financial statements | – | – | – | – | – | – | (9,565) | – | (9,565) | (1) | (9,566) |
| Total comprehensive loss for the year | – | – | – | – | – | 4,000 | (9,565) | (21,460) | (27,025) | 3,340 | (23,685) |
| Contribution to non-controlling shareholders | – | – | – | – | (2,291) | – | – | – | (2,291) | 2,291 | – |
| Acquisition of non-controlling interests | – | – | – | – | (2,101) | – | – | – | (2,101) | 2,101 | – |
| Equity-settled share-based payment expenses | – | – | – | 3,116 | – | – | – | – | 3,116 | – | 3,116 |
| Appropriation to statutory reserves | – | – | 151 | – | – | – | – | (151) | – | – | – |
| At 31 December 2020 | 1 | 498,453 | 18,675* | 151,292* | 344,697* | 3,371* | 27,162* | (545,335)* | 498,316 | (9,150) | 489,166 |

* These reserve accounts comprise the consolidated reserves of RMB(138,000) (2019: RMB28,163,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss before tax | | **(16,900)** | (87,311) |
| Adjustments for: | | | |
| Finance costs | 7 | **1,706** | 2,672 |
| Interest income | 5 | **(3,284)** | (5,737) |
| Dividend income from a financial asset at fair value through profit or loss | 5 | **–** | (281) |
| Depreciation of property, plant and equipment | 13 | **2,445** | 3,757 |
| Depreciation of right-of-use assets | 14(a) | **4,074** | 4,116 |
| Covid-19-related rent concessions from lessors | 14(b) | **(177)** | – |
| Amortisation of intangible assets | 16 | **755** | 744 |
| Loss/(gain) on disposal of items of property, plant and equipment | 6 | **1** | (697) |
| Loss on disposals of right-of-use assets | 14 | **80** | – |
| Equity-settled share-based payment expenses | 6 | **3,116** | 1,622 |
| Fair value (gains)/loss, net: | | | |
| Debt investments at fair value through other comprehensive income (transfer from equity on disposal) | | **–** | 86 |
| Financial assets at fair value through profit or loss | | **(21,910)** | (492) |
| Share of losses of associates | 17 | **374** | 1,280 |
| (Reversal of impairment)/impairment of other receivables | 20 | **(600)** | 20,509 |
| Impairment of investment in an associate | | **10,164** | – |
| Impairment of intangible assets | 16 | **1,036** | – |
| | | **(19,120)** | (59,732) |
| Decrease/(increase) in accounts receivable and receivables due from third-party game distribution platforms and payment channels | | **1,204** | (10,126) |
| Decrease in prepayments, other receivables and other assets | | **469** | 5,284 |
| (Decrease)/Increase in other payables and accruals | | **(15,306)** | 4,408 |
| Increase/(decrease) in other current assets | | **591** | (4,496) |
| Decrease in contract liabilities | | **(398)** | (2,034) |
| Cash used in operations | | **(32,560)** | (66,696) |
| Interest paid | | **(1,724)** | (2,888) |
| Income tax paid | | **(1,185)** | (2,715) |
| Net cash flows used in operating activities | | **(35,469)** | (72,299) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| Net cash flows used in operating activities | | (35,469) | (72,299) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | 5,336 | 6,350 |
| Dividend received from a financial asset at fair value through profit or loss | 5 | – | 281 |
| Purchases of items of property, plant and equipment | | (28,671) | (46,327) |
| Proceeds from disposal of items of property, plant and equipment | | 11 | 779 |
| Purchase of equity investments designated at fair value through other comprehensive income | | (5,000) | – |
| Purchase of financial assets at fair value through profit or loss | | (560,954) | (393,403) |
| Proceeds from disposal of equity investments designated at fair value through other comprehensive income | | – | 108,500 |
| Proceeds from disposal of financial assets at fair value through profit or loss | | 640,383 | 453,252 |
| Proceeds from disposal of debt investments at fair value through other comprehensive income | | 1,376 | 4,882 |
| Purchase of shareholdings in associates | | (633) | (3,000) |
| Dividends received from an associate | | 200 | – |
| Net cash flows from investing activities | | 52,048 | 131,314 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Addition of bank loans | | 2,817,745 | 3,760,943 |
| Repayment of bank loans | | (2,870,149) | (3,739,132) |
| Principal portion of lease payments | 14 | (3,762) | (4,345) |
| Net cash flows (used in)/from financing activities | | (56,166) | 17,466 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | (39,587) | 76,481 |
| Cash and cash equivalents at beginning of year | | 179,218 | 104,922 |
| Effect of foreign exchange rate changes, net | | (437) | (2,185) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 139,194 | 179,218 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and cash equivalents as stated in the statement of financial position | 22 | 139,194 | 179,218 |

## 1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 6 March 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is the offices of Conyers Trust Company (Cayman) Ltd. at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Group is principally engaged in the operation and development of web and mobile games in Mainland China. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Ltd. (the "Hong Kong Stock Exchange") on 5 December 2014.

**Information about subsidiaries**

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

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Date of incorporation | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Direct | Indirect | |
| Feiyu Technology Hong Kong Ltd. | Hong Kong | HK$1 | 25 March 2014 | 100 | – | Investment holding |
| Xiamen Guanghuan Information Technology Co., Ltd. ("Xiamen Guanghuan") | PRC/ Mainland China | RMB10,000,000 | 12 January 2009 | – | 100 | Game development and distribution |
| Xiamen Youli Information Technology Co., Ltd. ("Xiamen Youli") | PRC/ Mainland China | RMB150,000,000 | 19 September 2011 | – | 100 | Game development and distribution |
| Xiamen Yidou Internet Technology Co., Ltd. ("Xiamen Yidou") | PRC/ Mainland China | RMB5,000,000 | 11 June 2012 | – | 100 | Game development and distribution |
| Beijing Kailuo Tianxia Technology Co., Ltd. ("Kailuo Tianxia") | PRC/ Mainland China | RMB60,000,000 | 3 May 2012 | – | 100 | Game development and distribution |
| Xiamen Feiyu Technology Co., Ltd.* ("Xiamen Feiyu") | PRC/ Mainland China | US$20,000,000 | 24 June 2014 | – | 100 | Investment holding Game development and distribution |
| Xiamen Guangling Investment Management Co., Ltd. ("Xiamen Guangling") | PRC/ Mainland China | RMB10,000,000 | 10 November 2014 | – | 100 | Game development and distribution |
| Beijing Baicai Tianxia Technology Co., Ltd. ("Baicai Tianxia") | PRC/ Mainland China | RMB10,000,000 | 10 July 2015 | – | 100 | Game development and distribution |
| Xiamen Feixiangyue Investment Management Co., Ltd. ("Xiamen Feixiangyue") | PRC/ Mainland China | RMB200,000,000 | 9 August 2016 | – | 100 | Asset management |

* Xiamen Feiyu Technology Co., Ltd. is registered as a wholly-foreign-owned enterprise under PRC law.

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 International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss 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 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to IFRS 3 | *Definition of a Business* |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | *Interest Rate Benchmark Reform* |
| Amendments to IFRS 16 | *Covid-19-Related Rent Concessions* (early adopted) |
| Amendments to IAS 1 and IAS 8 | *Definition of Material* |

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to IFRS 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's offices have been reduced or waived by the lessors as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendments on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB177,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

(e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| Amendments to IFRS 3 | *Reference to the Conceptual Framework*[2] |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | *Interest Rate Benchmark Reform – Phase 2*[1] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| IFRS 17 | *Insurance Contracts*[3] |
| Amendments to IFRS 17 | *Insurance Contracts*[3, 5] |
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-current*[3] |
| Amendments to IAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use*[2] |
| Amendments to IAS 37 | *Onerous Contracts – Cost of Fulfilling a Contract*[2] |
| *Annual Improvements to IFRSs 2018-2020* | Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[2] |

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to IFRS 17, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in RMB based on the Loan Prime Rate as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 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 IFRS 10 and IAS 28 was removed 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 IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

*Annual Improvements to IFRSs 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments:* clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Investments in associates**

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.

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

**Business combinations 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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Business combinations and goodwill (Continued)**

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.

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Fair value measurement (Continued)**

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.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and non-current 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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 or 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 personnel services to the Group or to the parent of the Group.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

| | |
|---|---|
| Office equipment | 19%-32% |
| Motor vehicles | 19%-24% |
| Leasehold improvements | over the shorter of the lease terms and 20%-50% |

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

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

**Intangible assets (other than goodwill)**

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Intangible assets (other than goodwill) (Continued)**

*Software*

Software assets are amortised on a straight-line basis over the shorter of the estimated useful lives or as stipulated by law. The estimated useful lives range from 2 years to 15 years.

*Game intellectual properties and licences*

Games acquired are amortised over their estimated beneficial years on the straight-line basis. The estimated useful lives range from 2 years to 5 years.

*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 five to seven years, 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 as follows:

| | |
|---|---|
| Leasehold land | 40 years |
| Properties | 2 to 5 years |

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Leases (Continued)**

*Group as a lessee (continued)*

(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 lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its internal rate of return at the lease commencement date. 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.

*Group as a lessor*

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Investments and other financial assets**

*Initial recognition and measurement*

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

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

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

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

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

*Subsequent measurement*

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

Financial assets at amortised cost (debt instruments)

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Investments and other financial assets (Continued)**

*Subsequent measurement (Continued)*

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

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

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

Financial assets at fair value through profit or loss

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

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value 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.

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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.

**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.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of financial assets (Continued)**

*General approach (Continued)*

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

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

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

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

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

*Simplified approach*

For accounts receivable and receivables due from third-party game distribution platforms and payment channels 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 other payables and interest-bearing bank and other borrowings.

*Subsequent measurement*

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial liabilities (Continued)**

*Subsequent measurement (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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Provisions**

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

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

**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.

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 and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Income tax (Continued)**
Deferred tax assets are recognised for all deductible temporary differences, 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, and 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 and associates, 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.

**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, for 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 the statement of 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 the statement of profit or loss by way of a reduced depreciation charge.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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.

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

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Game operation

The Group's online games allow players to play for free. The Group's single player games either allow players to play for free or pay to play. Players can purchase in-game virtual currency, which can be used to obtain in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience. The Group operates its online and single player games through cooperation with various third-party game distribution platforms including online application stores, web-based and mobile game portals and mobile operators and derives its revenue from sales of in-game currency and items. The Group is responsible for providing ongoing updates of new contents, and technical support for the operation of the games. The platforms provide the servers for downloading and hosting the games and are responsible for distribution, marketing, platform maintenance and payment collections from players. Players purchase the Group's in-game currencies through the platforms' own charging systems by remitting the payment directly to the platforms. After deducting the commission charged by the platforms, the platforms remit the rest of net proceeds to the Group. The portion of the proceeds received by the Group is calculated based on the standard price of in-game virtual currencies sold and the agreed share ratio in the contracts with platforms.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue recognition (Continued)**

*Revenue from contracts with customers (Continued)*

(a) Game operation (Continued)

The Group assesses its rights and responsibilities in the cooperation with the platforms to deliver the game experience to the players to determine whether it is principal or agent in the arrangement. If the Group considers it is the principal in the arrangement, revenue is recognised on a gross basis, which is the gross spending by the players. Then the portion charged by the platforms is recorded in selling and distribution expenses as channel costs. If the Group considers it is the agent in the arrangement, revenue is recognised on a net basis, which is the net proceeds from platforms after deducting the portion charged by the platforms.

Certain third-party platforms offer various marketing discounts from time to time to players to encourage spending on these platforms. The actual prices paid by individual players may be lower than the standard prices of virtual currencies. Such marketing discounts are neither available to be tracked reliably nor borne by the Group. For revenue related to these platforms, it is measured at the fair value of the consideration received or receivable, which is the net amount from these third-party platforms.

For online games, the in-game items and premium features, which are purchased by virtual currencies, are considered value-added services and rendered over a pre-specified period or throughout the whole game life. Once the players purchase virtual currencies, the proceeds are recorded in contract liabilities and recognised in revenue after the virtual currencies are used to purchase in-game items or premium features which are either upon consumption or ratably over the practical usage period predetermined in the game. The Group monitors the operational statistics and usage patterns of the virtual items.

For single player games, since they are downloaded and installed on each individual mobile device, the Group does not have the obligation for game maintenance once the game is downloaded and neither has the access to the game data on each mobile device. Revenue is recognised upon the download of the game or purchase of virtual items by players. The cost of providing ongoing technical support for the operation of the games is considered to be insignificant.

(b) Online game distribution

The Group distributes third party developers' games and generates its revenue by charging commission to game developers based on a certain portion of the purchase amount for in-game virtual currencies remitted by players through the Group's charging system. After deducting the commission charged by the Group, the Group remits the rest of the amount to the game developers. Revenue is measured at the amount of the commission and recognised upon the purchase action by players.

(c) Licensing income

The Group receives royalty income from third-party licensees in exchange for the exclusive operation of the Group's self-developed games in certain regions, providing related technical support and the Group's licensing products. The royalty fees include an upfront fee and, in certain cases, an additional fee during the contracted licence period, which is determined based on an agreed amount when accumulated virtual currencies purchased by the players with accounts registered with the third parties exceed certain amounts. The upfront fee is recognised ratably over the contracted licence period. The additional fee is recognised when the actual purchase by the players exceeds the agreed amount in contract.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue recognition (Continued)**

*Revenue from contracts with customers (Continued)*

(d) Advertising revenue

Online advertising revenue is derived principally from online advertising arrangements. The Group enters into advertising arrangements with advertisers to allow them to place advertisements in particular areas of the Group's games. Advertising revenue from an advertising arrangement is recognised either ratably over the displaying period of the advertisement or upon a particular action by players, i.e., click, download or activate.

(e) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(f) Technical service income

The Group derives revenue from technical services. Technical service revenue is recognised when technical support services are rendered.

(g) 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 Group's right to receive the payment is 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).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Contract costs**

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

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

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

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

**Share-based payments**

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each 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 or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Share-based payments (Continued)**

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

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

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

**Other employee benefits**

*Pension scheme*

The group companies operating in Mainland China participate in defined contribution retirement benefit plans organised by the relevant government authorities for its employees in Mainland China and contribute to these plans based on a certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities, The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognised as employee benefit expenses when incurred.

*Housing benefits*

Employees of the group companies operating in Mainland China participate in government-sponsored housing funds. The Group contributes to these funds based on certain percentages of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the funds are expensed as incurred.

*Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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**

The functional currency of the Company is the Hong Kong dollar ("HK$"). These financial statements are presented in RMB. In the opinion of the directors, as the Group's operations are mainly in the PRC, the use of RMB as the presentation currency is more appropriate for the presentation of the Group's results and financial position. 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 statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was 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).

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Foreign currencies (Continued)**

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

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

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.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end 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 described 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 2020 was RMB20,121,000 (2019: RMB20,121,000). Further details are given in note 15.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

**Estimation uncertainty (Continued)**

*Fair value of unlisted equity investments*

Certain unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 33 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2020 was RMB37,712,000. Further details are included in note 21 to the financial statements.

*Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including a sensitivity analysis of key assumptions, are given in note 17 to the financial statements.

## 4. OPERATING SEGMENT INFORMATION

The Group focuses primarily on the operation and development of web and mobile games in Mainland China. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

**Information about geographical areas**

Since no revenue or operating profit from transactions with a single geographical area other than Mainland China accounted for 10% or more of the Group and all of the Group's identifiable assets and liabilities were located in Mainland China, no geographical segment information in accordance with IFRS 8 *Operating Segments* is presented.

**Information about a major customer**

Revenue from continuing operations of approximately RMB14,977,000 (2019: RMB29,687,000) was derived from a single customer for game operation.

## 5. REVENUE, OTHER INCOME AND GAINS

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Types of goods or services** | | |
| Online web and mobile games | 41,594 | 51,700 |
| Single-player mobile games | 24,163 | 7,526 |
| Game operation | 65,757 | 59,226 |
| – Gross basis | 6,535 | 6,059 |
| – Net basis | 59,222 | 53,167 |
| Online game distribution | 29,083 | 30,885 |
| Licensing income | 5,125 | 10,487 |
| Advertising revenue | 16,815 | 11,430 |
| Sale of goods | 184 | 59 |
| Technical service income | 40 | 764 |
| Total revenue from contracts with customers | 117,004 | 112,851 |
| **Timing of revenue recognition** | | |
| Services transferred over time | 5,125 | 10,487 |
| Services and goods transferred at a point of time | 111,879 | 102,364 |
| Total revenue from contracts with customers | 117,004 | 112,851 |
| **Other income** | | |
| Government grants | 8,135 | 6,287 |
| Interest income | 3,284 | 5,737 |
| Rental income | 86 | 450 |
| | 11,505 | 12,474 |
| **Gains** | | |
| Fair value gains, net: | | |
| Financial assets | 21,910 | 406 |
| Dividend income from financial assets at fair value through profit or loss | – | 281 |
| Gain on disposal of items of property, plant and equipment | 6 | 716 |
| Others | 481 | 456 |
| | 22,397 | 1,859 |
| | 33,902 | 14,333 |

## 6. LOSS BEFORE TAX

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

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Channel costs | | 2,005 | 2,246 |
| Rental fee | | 3,080 | 5,684 |
| Depreciation of property, plant and equipment | 13 | 2,445 | 3,757 |
| Depreciation of right-of-use assets | 14(a) | 4,074 | 4,116 |
| Lease payments not included in the measurement of lease liabilities | 14(c) | 3,080 | 5,684 |
| Rent concessions related to COVID-19 | 14(c) | (177) | – |
| Amortisation of intangible assets | 16 | 755 | 744 |
| (Reversal of impairment)/impairment of financial assets included in prepayments, other receivables and other assets | 20 | (600) | 20,509 |
| Advertising expenses | | 14,024 | 25,233 |
| Auditor's remuneration | | 1,950 | 2,100 |
| Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)): | | | |
| Wages and salaries | | 93,767 | 85,030 |
| Pension scheme contributions | | 1,827 | 7,215 |
| Equity-settled share option expense | | 3,116 | 1,622 |
| | | 98,710 | 93,867 |
| Foreign exchange differences, net* | | 1,411 | 481 |
| Loss/(gain) on disposal of items of property, plant and equipment, net | | 1 | (697) |

* These expenses are included in "Other expenses" in the consolidated statement of profit or loss.

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Interest on bank loans | 1,226 | 2,246 |
| Interest on lease liabilities | 480 | 426 |
| | 1,706 | 2,672 |

## 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:

| | Group | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Fees | **2,933** | 2,904 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **1,892** | 2,098 |
| Performance related bonuses | **203** | 231 |
| Pension scheme contributions | **197** | 274 |
| | **5,225** | 5,507 |

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

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

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Mr. Lai Xiaoling | **267** | 264 |
| Ms. Liu Qianli | **267** | 264 |
| Mr. Ma Suen Yee Andrew | **267** | 264 |
| | **801** | 792 |

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

## 8. DIRECTORS' REMUNERATION (Continued)

### (b) Executive directors and the chief executive

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **Executive directors** | | | | | |
| Mr. Chen Jianyu | 533 | 523 | 100 | 55 | 1,211 |
| Mr. Bi Lin | 533 | 521 | 33 | 32 | 1,119 |
| Mr. Lin Zhibin | 533 | 424 | 35 | 26 | 1,018 |
| Mr. Lin Jiabin | 533 | 424 | 35 | 26 | 1,018 |
| | 2,132 | 1,892 | 203 | 139 | 4,366 |
| **Chief executive:** | | | | | |
| Mr. Yao Jianjun | – | – | – | 58 | 58 |
| | 2,132 | 1,892 | 203 | 197 | 4,424 |

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| 2019 | | | | | |
| **Executive directors** | | | | | |
| Mr. Bi Lin | 528 | 729 | 61 | 44 | 1,362 |
| Mr. Chen Jianyu | 528 | 521 | 100 | 61 | 1,210 |
| Mr. Lin Zhibin | 528 | 424 | 35 | 28 | 1,015 |
| Mr. Lin Jiabin | 528 | 424 | 35 | 28 | 1,015 |
| | 2,112 | 2,098 | 231 | 161 | 4,602 |
| **Chief executive:** | | | | | |
| Mr. Yao Jianjun | – | – | – | 113 | 113 |
| | 2,112 | 2,098 | 231 | 274 | 4,715 |

Except for the chief executive, Mr. Yao Jianjun, there was no arrangement under which a director waived or agreed to waive any remuneration during this year.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include no director (2019: one director). Details of directors' remuneration are set out in note 8 above. Details of the remuneration for the remaining five (2019: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | 5,872 | 4,306 |
| Performance related bonuses | 779 | 1,738 |
| Equity-settled share-based payment expenses | 2,752 | 2,216 |
| Pension scheme contributions | 236 | 213 |
| | 9,639 | 8,473 |

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

| | Number of employees | |
|---|---|---|
| | 2020 | 2019 |
| HK$1,000,001 to HK$1,500,000 | – | – |
| HK$1,500,001 to HK$2,000,000 | 2 | 1 |
| HK$2,000,001 to HK$2,500,000 | 2 | 2 |
| HK$2,500,001 to HK$3,000,000 | – | – |
| HK$3,000,001 to HK$3,500,000 | 1 | – |
| HK$3,500,001 to HK$4,000,000 | – | 1 |
| | 5 | 4 |

During the year, share-based payments were made to five non-director highest paid employees in respect of their services to the Group (2019: three), further details of which are included in the disclosures in note 27 to the financial statements. The fair value of share-based payments, 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 highest paid employees' remuneration disclosures.

## 10. INCOME TAX

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

Under the relevant income tax law, the PRC subsidiaries were subject to income tax at a statutory rate of 25% for the year on their respective taxable income, except for Xiamen Yidou, which was certified as High and New Technology Enterprise ("HNTE") and entitled to a preferential income tax rate of 15% from 2018 to 2020, and Xiamen Feixin, Kailuo Tianxia, Xiamen Xiyu and Xiamen Guangling which were certified as High and New Technology Enterprises ("HNTEs") in 2019 and entitled to a preferential income tax rate of 15% from 2019 to 2021.

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%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB375,046,000 at 31 December 2020 (2019: RMB423,301,000).

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Current tax expense | **(69)** | 2,992 |
| Deferred tax (note 18) | **1,288** | (1,604) |
| Total tax expense for the year | **1,219** | 1,388 |

## 10. INCOME TAX (Continued)

A reconciliation of the tax credit or expense applicable to loss before tax using the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax credit or expense at the effective tax rate is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Loss before tax | (16,900) | (87,311) |
| Tax at the applicable tax rate | (6,027) | (20,268) |
| Lower tax rates enacted by local authorities | (140) | (1,316) |
| Expenses not deductible for tax | 1,092 | 555 |
| Other tax credit | (8,468) | (8,001) |
| Income not subject to tax | 1 | (76) |
| Tax losses utilised from previous years | (3,460) | (2,703) |
| Deferred tax assets not recognised | 18,221 | 33,197 |
| Tax expense | 1,219 | 1,388 |

## 11. DIVIDENDS

The Board does not recommend the payment of a final dividend to the ordinary equity holders of the Company for the year ended 31 December 2020 (for the year ended 31 December 2019: Nil)

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,546,943,455 (2019: 1,546,943,455) in issue during the year, as adjusted to reflect the share issuance, repurchase and treasury shares on hand during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2020 and 2019 in respect of a dilution as the impact of the share options outstanding had an anti-dilution effect in the basic loss per share amounts presented.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Office equipment RMB'000 | Motor vehicles RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2020** | | | | | |
| At 31 December 2019 and at 1 January 2020: | | | | | |
| Cost | 14,274 | 9,990 | 13,240 | 105,185 | 142,689 |
| Accumulated depreciation and impairment | (12,313) | (7,477) | (12,685) | – | (32,475) |
| Net carrying amount | 1,961 | 2,513 | 555 | 105,185 | 110,214 |
| At 1 January 2020, net of accumulated depreciation and impairment | 1,961 | 2,513 | 555 | 105,185 | 110,214 |
| Additions | 582 | 534 | 320 | 21,038 | 22,474 |
| Disposals | (7) | (8) | – | – | (15) |
| Depreciation provided during the year | (1,096) | (1,031) | (318) | – | (2,445) |
| At 31 December 2020, net of accumulated depreciation and impairment | 1,440 | 2,008 | 557 | 126,223 | 130,228 |
| At 31 December 2020: | | | | | |
| Cost | 14,684 | 10,382 | 13,560 | 126,223 | 164,849 |
| Accumulated depreciation and impairment | (13,244) | (8,374) | (13,003) | – | (34,621) |
| Net carrying amount | 1,440 | 2,008 | 557 | 126,223 | 130,228 |

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Office equipment RMB'000 | Motor vehicles RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2019** | | | | | |
| At 31 December 2018 and at 1 January 2019: | | | | | |
| Cost | 14,027 | 10,500 | 12,890 | 53,307 | 90,724 |
| Accumulated depreciation and impairment | (11,120) | (7,582) | (11,342) | – | (30,044) |
| Net carrying amount | 2,907 | 2,918 | 1,548 | 53,307 | 60,680 |
| At 1 January 2019, net of accumulated depreciation and impairment | 2,907 | 2,918 | 1,548 | 53,307 | 60,680 |
| Additions | 394 | 751 | 350 | 51,878 | 53,373 |
| Disposals | (27) | (55) | – | – | (82) |
| Depreciation provided during the year | (1,313) | (1,101) | (1,343) | – | (3,757) |
| At 31 December 2019, net of accumulated depreciation and impairment | 1,961 | 2,513 | 555 | 105,185 | 110,214 |
| At 31 December 2019: | | | | | |
| Cost | 14,274 | 9,990 | 13,240 | 105,185 | 142,689 |
| Accumulated depreciation and impairment | (12,313) | (7,477) | (12,685) | – | (32,475) |
| Net carrying amount | 1,961 | 2,513 | 555 | 105,185 | 110,214 |

At 31 December 2020, the Group's construction in progress with net carrying amounts of approximately RMB126,223,000 (2019: RMB105,185,000) was pledged to secure bank loans granted to the Group (note 24).

## 14. LEASES

**The Group as a lessee**

The Group has lease contracts of properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 2 and 5 years.

(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:

| | Leasehold land RMB'000 | Properties RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at 1 January 2019 | 103,552 | 1,776 | 105,328 |
| Addition | – | 12,347 | 12,347 |
| Depreciation charge | (2,755) | (4,116) | (6,871) |
| As at 31 December 2019 and 1 January 2020 | **100,797** | **10,007** | **110,804** |
| Additions | **–** | **1,650** | **1,650** |
| Depreciation charge | **(2,756)** | **(4,074)** | **(6,830)** |
| Revision of a lease term arising from a change in the non-cancellable period of a lease | **–** | **(1,295)** | **(1,295)** |
| As at 31 December 2020 | **98,041** | **6,288** | **104,329** |

The Group's Leasehold land with a carrying value at 31 December 2020 of RMB98,041,000 (2019: RMB100,797,000) was pledged to secure bank loans granted to the Group at 31 December 2020 (note 24).

## 14. LEASES (Continued)

**The Group as a lessee (Continued)**

(b) *Lease liabilities*

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | 9,778 | 1,776 |
| New leases | 1,650 | 12,347 |
| Accretion of interest recognised during the year | 480 | 426 |
| Covid-19-related rent concessions from lessors | (177) | – |
| Payments | (4,242) | (4,771) |
| Revision of a lease term arising from a change in the non-cancellable period of a lease | (1,215) | – |
| Carrying amount at 31 December | 6,274 | 9,778 |
| Analysed into: | | |
| Current portion | 3,696 | 4,432 |
| Non-current portion | 2,578 | 5,346 |

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to IFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of properties during this year.

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Interest on lease liabilities | 480 | 426 |
| Depreciation charge of right-of-use assets | 4,074 | 4,116 |
| Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 | 3,080 | 5,684 |
| Covid-19-related rent concession from lessors | (177) | – |
| Total amount recognised in profit or loss | 7,457 | 10,226 |

## 15. GOODWILL

| | RMB'000 |
|---|---|
| Cost at 1 January 2019, net of accumulated impairment | 20,121 |
| Impairment during the year | – |
| At 31 December 2019 | 20,121 |
| At 31 December 2019 | |
| Cost | 432,278 |
| Accumulated impairment | (412,157) |
| Net carrying amount | 20,121 |
| Cost at 1 January 2020, net of accumulated impairment | **20,121** |
| Impairment during the year | **–** |
| At 31 December 2020 | **20,121** |
| At 31 December 2020 | |
| Cost | **432,278** |
| Accumulated impairment | **(412,157)** |
| Net carrying amount | **20,121** |

**Impairment testing of goodwill**

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Veewo cash-generating unit
- Sanguo Zhiren cash-generating unit
- Shenzhen Zhangxin cash-generating unit

## 15. GOODWILL (Continued)

**Impairment testing of goodwill (Continued)**

The recoverable amounts of the above cash-generating units have been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by the board of directors. The discount rates applied to the cash flow projections are 21% to 36% (2019: 21% to 22%). The growth rate used to extrapolate the cash flows of the relevant games beyond the five-year period is 3%. The carrying amount of goodwill allocated to each cash-generating unit is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Veewo cash-generating unit | 11,040 | 11,040 |
| Shenzhen Zhangxin cash-generating unit | 8,694 | 8,694 |
| Sanguo Zhiren cash-generating unit | 387 | 387 |
| Carrying amount of goodwill | 20,121 | 20,121 |

Assumptions were used in the value-in-use calculation of the cash-generating units for the years ended 31 December 2020 and 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted income – The budgeted income includes estimated income from existing games and games in the pipeline, taking into account game popularity, income patterns in the game life cycle and the Group's strategy in operation. The Company believes this budgeted income is justified given its strong game development capability and experience of games, the cooperation with major third-party distribution platforms and the successful record of developing its games.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

## 16. OTHER INTANGIBLE ASSETS

| | Software RMB'000 | Game intellectual properties and licences RMB'000 | Total RMB'000 |
|---|---|---|---|
| **31 December 2020** | | | |
| Cost at 1 January 2020, net of accumulated amortisation and impairment | 1,344 | 1,554 | 2,898 |
| Amortisation provided during the year | (237) | (518) | (755) |
| Impairment during the year | – | (1,036) | (1,036) |
| At 31 December 2020 | 1,107 | – | 1,107 |
| At 31 December 2020: | | | |
| Cost | 6,041 | 76,966 | 83,007 |
| Accumulated amortisation and impairment | (4,934) | (76,966) | (81,900) |
| Net carrying amount | 1,107 | – | 1,107 |
| **31 December 2019** | | | |
| Cost at 1 January 2019, net of accumulated amortisation and impairment | 1,570 | 2,072 | 3,642 |
| Amortisation provided during the year | (226) | (518) | (744) |
| At 31 December 2019 | 1,344 | 1,554 | 2,898 |
| At 31 December 2019: | | | |
| Cost | 6,041 | 76,966 | 83,007 |
| Accumulated amortisation and impairment | (4,697) | (75,412) | (80,109) |
| Net carrying amount | 1,344 | 1,554 | 2,898 |

## 17. INVESTMENTS IN ASSOCIATES

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Share of net assets/(liabilities) | 1,622 | (220) |
| Goodwill on acquisition | 16,401 | 28,428 |
| | 18,023 | 28,208 |

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

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Share of the associates' losses for the year | (374) | (1,280) |
| Aggregate carrying amount of the Group's investments in the associates | 18,023 | 28,208 |

## 18. DEFERRED TAX

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

**Deferred tax assets**

| | Fair value adjustments of a financial asset at fair value through profit or loss RMB'000 | Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000 | Contract liabilities/ deferred revenue RMB'000 | Accruals RMB'000 | Losses available for offsetting against future taxable profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2019 | – | 2,856 | 748 | 541 | – | 4,145 |
| Deferred tax charged to other comprehensive income during the year | – | (1,730) | – | – | – | (1,730) |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10) | 18 | – | (383) | 1,462 | – | 1,097 |
| At 31 December 2019 | 18 | 1,126 | 365 | 2,003 | – | 3,512 |
| At 1 January 2020 | 18 | 1,126 | 365 | 2,003 | – | 3,512 |
| Deferred tax charged to other comprehensive income during the year | – | (751) | – | – | – | (751) |
| Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10) | (18) | – | (193) | (1,865) | 1,129 | (947) |
| At 31 December 2020 | – | 375 | 172 | 138 | 1,129 | 1,814 |

## 18. DEFERRED TAX (Continued)

**Deferred tax assets (Continued)**

Deferred tax assets have not been recognised in respect of tax losses of RMB455,882,000 as at 31 December 2020 (2019: RMB541,028,000), as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

**Deferred tax liabilities**

| | Fair value adjustments of a financial asset at fair value through profit or loss RMB'000 | Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2019 | 507 | 8,094 | 8,601 |
| Deferred tax credited to the statement of profit or loss during the year (note 10) | (507) | – | (507) |
| Deferred tax credited to other comprehensive income during the year | – | (8,032) | (8,032) |
| At 31 December 2019 | – | 62 | 62 |

| | **Fair value adjustments of a financial asset at fair value through profit or loss RMB'000** | **Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000** | **Total RMB'000** |
|---|---|---|---|
| At 1 January 2020 | **–** | **62** | **62** |
| Deferred tax charged to the statement of profit or loss during the year (note 10) | **341** | **–** | **341** |
| Deferred tax charged to other comprehensive income during the year | **–** | **836** | **836** |
| At 31 December 2020 | **341** | **898** | **1,239** |

## 19. ACCOUNTS RECEIVABLE AND RECEIVABLES DUE FROM THIRD-PARTY GAME DISTRIBUTION PLATFORMS AND PAYMENT CHANNELS

The Group's credit terms with customers generally range from one month to four months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its receivable balances. These receivables are non-interest-bearing.

An ageing analysis of the receivables as at the end of the year, based on the invoice date and net of loss allowance, is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within 3 months | 30,902 | 32,106 |

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's accounts receivable and receivables due from third-party game distribution platforms and payment channels using a provision matrix:

**As at 31 December 2020**

| | | Past due | | | |
|---|---|---|---|---|---|
| | Current | Less than 1 month | 1 to 3 months | Over 3 months | Total |
| Expected credit loss rate | 0% | 0% | 0% | 0% | 0% |
| Gross carrying amount (RMB'000) | 30,902 | – | – | – | 30,902 |
| Expected credit losses (RMB'000) | – | – | – | – | – |

As at 31 December 2019

| | | Past due | | | |
|---|---|---|---|---|---|
| | Current | Less than 1 month | 1 to 3 months | Over 3 months | Total |
| Expected credit loss rate | 0% | 0% | 0% | 0% | 0% |
| Gross carrying amount (RMB'000) | 32,106 | – | – | – | 32,106 |
| Expected credit losses (RMB'000) | – | – | – | – | – |

## 20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Non-current** | | |
| Prepayments | 3,889 | 13,345 |
| Prepaid land lease payments related deposits | 1,605 | 1,605 |
| Other receivables | 19,460 | 6,436 |
| | 24,954 | 21,386 |
| Impairment allowance | (7,605) | (7,605) |
| | 17,349 | 13,781 |
| **Current** | | |
| Prepayments | 4,957 | 7,486 |
| Deposits | 6,540 | 6,404 |
| Other receivables | 14,593 | 22,316 |
| | 26,090 | 36,206 |
| Impairment allowance | (4,104) | (15,904) |
| | 21,986 | 20,302 |

The movements in the loss allowance for impairment of other receivables are as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| At beginning of year | 23,509 | 3,000 |
| Impairment allowance written off | (11,200) | – |
| Impairment losses recognised | – | 20,509 |
| Reversal of impairment losses | (600) | – |
| At end of year | 11,709 | 23,509 |

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. Except for prepayments, other receivables and other assets amounting to RMB11,709,000 (2019: RMB23,509,000) included in the above balances, the above assets are neither past due nor impaired. Other than the aforementioned impaired receivables, the financial assets included in the above balances related to receivables for which there was no recent history of default.

## 21. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Debt investments at fair value through other comprehensive income** | | | |
| Straight bonds | (1) | **22,025** | 23,955 |
| **Equity investments designated at fair value through other comprehensive income** | | | |
| Unlisted equity investments, at fair value | (2) | **37,712** | 23,056 |
| **Financial assets at fair value through profit or loss** | | | |
| Unlisted debt investments, at fair value | (3) | **37,282** | 37,642 |
| Convertible bonds | (4) | **–** | 14,286 |
| Investment in life insurance policies | (5) | **–** | 98,977 |
| Bond Fund | (6) | **10,711** | – |
| Perpetual bonds | (7) | **30,221** | – |
| | | **78,214** | 150,905 |

## 21. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(1) On 23 June 2017, the Group invested in a bond issued by Huarong Finance 2017 Co., Ltd. with a nominal amount of US$3,000,000 at a consideration of US$3,142,000 (equivalent to approximately RMB21.4 million). The bond has a coupon interest rate of 4.75% per annum with a maturity period of 10 years.

Debt investments at fair value through other comprehensive income are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

(2) The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature, which represented equity investments in one company listed on the National Equities Exchange And Quotations of the PRC, and three unlisted entities incorporated in the PRC and Singapore.

On 22 June 2020, the Group acquired a 10% interest in an unlisted entity at a consideration of RMB10 million.

(3) The above unlisted debt investments represented the investments in two unlisted limited partnerships, and one unlisted entity incorporated in the Cayman Islands.

(4) On 6 April 2015, the Group invested in a perpetual convertible bond issued by Standard Chartered PLC with a nominal amount of US$8,000,000 and a coupon interest rate of 6.5% per annum at a consideration of US$8,101,000 (equivalent to approximately RMB49.7 million). In July and August 2016, the Group sold part of the above perpetual convertible bond with a nominal amount of US$5,000,000 for a consideration of US$4,788,000 (equivalent to approximately RMB31.9 million). On 31 January 2018, the Group sold another part of the above perpetual convertible bond with a nominal amount of US$1,000,000 for a consideration of US$1,056,000 (equivalent to approximately RMB6.7 million). On 2 April 2020, the bond with an aggregate nominal amount of US$2,000,000 was fully redeemed by Standard Chartered PLC in advance at an aggregated consideration of US$2,065,000 (equivalent to approximately RMB14.7 million).

The coupon interest can be cancelled any time at the issuer’s sole discretion. The convertible bond shall be converted into ordinary shares of the issuer if the issuer failed to meet certain covenants.

Financial assets at fair value through profit or loss are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

## 21. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(5) In August 2015, the Group entered into life insurance policies with an insurance company to insure certain members of the key management of the Group. Under these policies, the beneficiary and policyholder is the Company. The Company has paid out the total insurance premium with an aggregate amount of approximately US$14.5 million (equivalent to approximately RMB89.0 million) at the inception of the insurance. The Company can terminate the policy at any time and receive back based on the surrender value of the contract at the date of withdrawal, which is determined by the insurance premium of each insurance policy plus the accumulated interest earned and minus the insurance costs ("Surrender Value"). In addition, if the withdrawal is made between the first and tenth policy years, there is a special amount of surrender charge by the insurance company. The insurance company will declare a guaranteed interest of 3.9% per annum plus a premium determined by the insurance company on the outstanding Surrender Value of the contract for the first three years. Commencing from the fourth year, the guaranteed interest will be reduced to 2% per annum.

On 5 November 2020, the Group sold the above life insurance for a consideration of US$14.5 million (equivalent to approximately RMB97.0 million).

(6) In January 2020, the Group invested in a bond fund issued by UBS (CAY) Fund Series with a nominal amount of US$1,600,000 and with an income stream from a diversified portfolio at a consideration of US$1,614,000 (equivalent to approximately RMB11.1 million).

(7) On 17 January 2020, the Group invested in a perpetual bond issued by CCB Life Insurance Company Limited with a nominal amount of US$1,500,000 and a coupon interest rate of 4.5% per annum at a consideration of US$1,547,000 (equivalent to approximately RMB10.6 million). On 17 January 2020, the Group invested in a perpetual bond issued by Chalieco Hong Kong Corporation Limited with a nominal amount of US$1,500,000 and a coupon interest rate of 5.0% per annum at a consideration of US$1,546,000 (equivalent to approximately RMB10.7 million). On 2 March 2020, the Group invested in a perpetual bond issued by FWD Limited with a nominal amount of US$1,500,000 and a coupon interest rate of 6.25% per annum at a consideration of US$1,553,000 (equivalent to approximately RMB10.8 million).

## 22. CASH AND CASH EQUIVALENTS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Cash and bank balances | 139,194 | 179,218 |
| Cash and cash equivalents | 139,194 | 179,218 |
| Denominated in HK$ | 511 | 4,027 |
| Denominated in RMB | 83,464 | 125,967 |
| Denominated in US$ | 55,219 | 48,538 |
| Denominated in other currencies | – | 686 |
| Cash and cash equivalents | 139,194 | 179,218 |

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 are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

## 23. OTHER PAYABLES AND ACCRUALS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Salaries and welfare payables | 35,783 | 38,698 |
| Other payables and accruals | 28,140 | 44,317 |
| Other tax payables | 999 | 1,288 |
| Advance from customers | 178 | 59 |
| | 65,100 | 84,362 |

## 24. INTEREST-BEARING BANK LOANS

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loans-secured | – | – | – | 3.776 | Weekly renewable | 60,586 |
| Bank loans-secured | 5.047 | 2021 | 10,000 | 5.047 | 2020 | 9,340 |
| | | | 10,000 | | | 69,926 |
| **Non-current** | | | | | | |
| Bank loans-secured | 5.047-5.050 | 2022-2026 | 53,840 | 5.047-5.050 | 2021-2025 | 46,770 |
| | | | 63,840 | | | 116,696 |

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans and overdrafts repayable: | | |
| Within one year or on demand | 10,000 | 69,926 |
| In the second year | 10,000 | 10,660 |
| In the third to fifth years, inclusive | 40,000 | 35,000 |
| Beyond five years | 3,840 | 1,110 |
| | 63,840 | 116,696 |

Notes:

(a) The Group's short-term loan facility was fully repaid (2019: US$20,000,000) at the termination of the Group's investment in the life insurance policies (note 21).

(b) The Group's long term loan facility amounted to RMB120,000,000 (2019: RMB120,000,000), of which RMB63,840,000 (2019: RMB56,110,000) had been drawn as at 31 December 2020.

(c) The Group's leasehold land (note 14) and the headquarter building in progress (note 13) was pledged for the long term loan facility granted to the Group at 31 December 2020. The loan will be repaid year by year in accordance with the contracts.

## 25. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2020 and 1 January 2020 are as follows:

| | **31 December 2020 RMB'000** | 1 January 2020 RMB'000 |
|---|---|---|
| *Short-term advances received* | | |
| Online web and mobile games | **1,720** | 3,229 |
| Licensing income | **1,996** | 1,123 |
| | **3,716** | 4,352 |
| *Long-term advances received* | | |
| Online web and mobile games | **129** | 129 |
| Licensing income | **2,894** | 2,656 |
| Total contract liabilities | **6,739** | 7,137 |

Contract liabilities mainly represented prepaid unconsumed virtual currencies, virtual items from players and the remaining upfront licensing fees for online game services from game distribution platforms, for which the related services had not been rendered as at 31 December 2020. Contract liabilities in relation to operations of online games were previously included in deferred revenue (for which the related services had not been rendered as at 1 January 2020).

## 26. SHARE CAPITAL

**Shares**

| | 2020 | 2019 |
|---|---|---|
| Issued and fully paid or credited as fully paid: | | |
| Ordinary shares of US$0.0000001 each | **1,546,943,455** | 1,546,943,455 |
| Equivalent to RMB'000 | **1** | 1 |

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

| | **Number of issued and fully paid ordinary shares** | **Nominal value of ordinary shares** RMB'000 | **Share premium** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 1 January 2019 | 1,546,943,455 | 1 | 498,453 | 498,454 |
| At 31 December 2019 | 1,546,943,455 | 1 | 498,453 | 498,454 |
| At 31 December 2020 | **1,546,943,455** | **1** | **498,453** | **498,454** |

## 27. EQUITY-SETTLED SHARE-BASED PAYMENTS

**(1) Share option schemes**

The Company approved and adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a post-IPO share option scheme (the "Post-IPO Share Option Scheme", together as the "Schemes") pursuant to shareholders' written resolutions and directors' written resolution passed on 17 November 2014. The purpose of the Schemes is to provide rewards to eligible participants for their service to the Group. Eligible participants include any full-time employees, consultants, executives or officers of the Company and any of its subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to the Group.

The total number of ordinary shares subject to the Pre-IPO Share Option Scheme is 105,570,000. On 17 November 2014, under the Pre-IPO Share Option Scheme, share options were granted to 2 members of senior management and 120 other employees to subscribe for 105,570,000 shares at an exercise price of HK$0.55 per share. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 31 December 2015, 2016, 2017 and 2018, respectively. Each option granted if not exercised subsequently expired on 5 December 2019.

The maximum number of shares to be issued upon exercise of all share options to be granted under the Post-IPO Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 150,000,000 shares and 30% of the shares of the Company in issue from time to time. On 27 March 2017, under the Post-IPO Share Option Scheme, share options were granted to employees to subscribe for 10,160,000 shares at an exercise price of HK$1.256 per share. 7,160,000 share options granted will be vested equally in four tranches as to 25% of the number of shares on 31 December 2017, 2018, 2019 and 2020, respectively. 3,000,000 share options granted will be vested in three tranches as to 50%, 25% and 25% of the number of shares on 30 June 2017, 2018 and 2019, respectively. Each option granted if not exercised subsequently will expire on 26 March 2027. On 15 May 2017, under the Post-IPO Share Option Scheme, share options were granted to employees to subscribe for 5,000,000 shares at an exercise price of HK$1.1 per share. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 15 May 2018, 2019, 2020 and 2021, respectively. Each option granted if not exercised subsequently will expire on 14 May 2027. On 13 November 2017, under the Post-IPO Share Option Scheme, share options were granted to one member of senior management to subscribe for 15,000,000 shares at an exercise price of HK$1.026 per share. All share options granted will be vested equally in three tranches as to 33% of the aggregate number of shares on 13 November 2018, 2019 and 2020, respectively. Each option granted if not exercised subsequently will expire on 12 November 2027. On 1 January 2020, under the Post-IPO Share Option Scheme, share options were granted to employees to subscribe for 22,000,000 shares at an exercise price of HK$0.1804 per share. 10,000,000 share options granted will be vested in three tranches as to 10%, 40%, 50% of the number of shares on 31 December 2020, 2021 and 2022, respectively. 12,000,000 share options granted will be vested equally in three tranches as to 33% of the number of shares on 31 December 2020, 2021 and 2022, respectively. Each option granted if not exercised subsequently will expire on 21 January 2024. On 8 May 2020, under the Post-IPO Share Option Scheme, share options were granted to employees to subscribe for 90,000,000 shares at an exercise price of HK$0.1804 per share. 50,000,000 share options granted will be vested in three tranches as to 20%, 30% and 50% of the number of shares on 31 December 2020, 2021 and 2022, respectively. 18,000,000 share options granted will be vested in two tranches as to 44% and 56% of the number of shares on 31 December 2021 and 2022, respectively. 22,000,000 share options granted will be vested in three tranches as to 32%, 32%, 36% of the number of shares on 31 December 2020, 2021 and 2022, respectively. Each option granted if not exercised subsequently will expire on 21 January 2024.

## 27. EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

**(1) Share option schemes (Continued)**

The following share options were outstanding under the Schemes during the year:

| | 2020 Weighted average exercise price HK$ per share | 2020 Number of options '000 | 2019 Weighted average exercise price HK$ per share | 2019 Number of options '000 |
|---|---|---|---|---|
| At 1 January | 1.35 | 28,800 | 0.94 | 72,029 |
| Granted during the year | 0.18 | 112,000 | – | – |
| Forfeited during the year | 1.10 | (1,500) | 1.75 | (3,500) |
| Expired during the year | – | – | 0.57 | (39,729) |
| At 31 December | 0.41 | 139,300 | 1.35 | 28,800 |

No share options were exercised during 2020 and 2019.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

| 2020 Number of options '000 | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| 3,000 | 3.93 | 10-06-2016 to 09-06-2025 |
| 6,300 | 1.26 | 31-12-2017 to 26-03-2027 |
| 3,000 | 1.26 | 30-06-2017 to 26-03-2027 |
| 15,000 | 1.03 | 13-11-2018 to 12-11-2027 |
| 22,000 | 0.18 | 31-12-2020 to 20-01-2024 |
| 90,000 | 0.18 | 31-12-2020 to 20-01-2024 |
| 139,300 | | |

## 27. EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

### (1) Share option schemes (Continued)

| 2019 Number of options '000 | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| 3,000 | 3.93 | 10-06-2016 to 09-06-2025 |
| 6,300 | 1.26 | 31-12-2017 to 26-03-2027 |
| 3,000 | 1.26 | 30-06-2017 to 26-03-2027 |
| 1,500 | 1.10 | 15-05-2018 to 14-05-2027 |
| 15,000 | 1.03 | 13-11-2018 to 12-11-2027 |
| 28,800 | | |

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was RMB6,015,000 (RMB0.06 each) (2019: Nil), of which the Group recognised a share option expense of RMB2,129,000 (2019: Nil) during the year ended 31 December 2020.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | 2020 |
|---|---|
| Dividend yield (%) | – |
| Expected volatility (%) | 49.42-50.97 |
| Risk-free interest rate (%) | 1.69-2.64 |
| Expected life of options (year) | 4 |
| Weighted average share price (HK$ per share) | 0.15-0.17 |

## 27. EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

**(1) Share option schemes (Continued)**

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of comparable listed companies in the same industry.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 139,300,000 share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 139,300,000 additional ordinary shares of the Company, additional share capital of approximately RMB91 and a share premium of approximately RMB49,721,980.

Subsequent to the end of the reporting period, on 31 March 2021, the Company had 139,300,000 share options outstanding under the Schemes, which represented 9.00% of the Company's shares in issue as at that date.

The Group recognised total share option expenses of RMB3,116,000 for the year ended 31 December 2020 (2019: RMB1,622,000).

## 28. RESERVES

**Statutory reserves**

Pursuant to the relevant PRC rules and regulations and the articles of association, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements are required to transfer no less than 10% of their profit after taxation, as determined under PRC accounting regulations, to the statutory reserves until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

## 29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

**(a) Major non-cash transactions**

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,650,000 (2019: RMB12,347,000) respectively, in respect of lease arrangements for properties.

## 29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Changes in liabilities arising from financing activities

| | 2020 Lease liabilities RMB'000 | 2020 Bank and other loans RMB'000 |
|---|---|---|
| At 1 January 2020 | 9,778 | 116,696 |
| Changes from financing cash flows | (4,242) | (54,534) |
| New leases | 1,650 | – |
| Interest expense | 480 | 1,226 |
| Covid-19-related rent concessions from lessors | (177) | – |
| Reassessment and revision of lease terms | (1,215) | – |
| Foreign exchange movement | – | 452 |
| At 31 December 2020 | 6,274 | 63,840 |

| | 2019 Lease liabilities RMB'000 | 2019 Bank and other loans RMB'000 |
|---|---|---|
| At 1 January 2019 | – | 93,034 |
| Effect of adoption of IFRS 16 | 1,776 | – |
| At 1 January 2019 (restated) | 1,776 | 93,034 |
| Changes from financing cash flows | (4,771) | 19,897 |
| New leases | 12,347 | – |
| Interest expense | 426 | 1,914 |
| Foreign exchange movement | – | 1,851 |
| At 31 December 2019 | 9,778 | 116,696 |

### (c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Within operating activities | 3,803 | 5,126 |
| Within financing activities | 3,939 | 4,345 |
| | 7,742 | 9,471 |

## 30. COMMITMENTS

**(a)** The Group had the following capital commitments at the end of the reporting period:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Construction in progress | 25,564 | 31,152 |
| Capital contributions payable to an unlisted equity investment | 5,000 | – |
| Game operation | 2,797 | – |
| | 33,361 | 31,152 |

**(b)** The Group has various lease contracts that have not yet commenced as at 31 December 2020. The future lease payments for these non-cancellable lease contracts are RMB1,047 thousand due within one year.

## 31. RELATED PARTY TRANSACTIONS

**(a) Name and relationship of related parties**

| Name | Relationship |
|---|---|
| Shanghai Kamao Network Technology Co., Ltd. ("Shanghai Kamao") | Associate |
| Xiamen Chenxing Interactive Technology Co., Ltd. ("Xiamen Chenxing") | Associate |

## 31. RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with related parties

The following transactions were carried out with related parties:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Loans to associates (note (i)) | | |
| Xiamen Chenxing | – | 2,700 |
| Shanghai Kamao | 4,365 | 700 |
| | 4,365 | 3,400 |
| Game research services from (note (ii)) | | |
| Shanghai Kamao | – | 3,919 |
| | – | 3,919 |
| Revenue sharing to (note (iii)) | | |
| Shanghai Kamao | 2,102 | – |
| Xiamen Chenxing | – | 966 |
| | 2,102 | 966 |
| Prepaid revenue sharing to (note (iv)) | | |
| Shanghai Kamao | – | 971 |

Notes:

(i) The Group offered non-interest-bearing loans to Xiamen Chenxing amounting to RMB2,700,000 in 2019. The loans to Xiamen Chenxing were fully impaired.

The Group offered a non-interest-bearing loan amounting to RMB4,365,000 and RMB700,000 to Shanghai Kamao in 2020 and 2019, respectively. The loan of RMB200,000 was repaid by 30 June 2019.

(ii) The purchase of game research services from Shanghai Kamao was mutually agreed after taking into account the prevailing market prices.

(iii) The online game's revenue sharing to Shanghai Kamao and Xiamen Chenxing was mutually agreed after taking into account the prevailing market prices.

(iv) The online game's prepaid revenue sharing to Shanghai Kamao was mutually agreed after taking into account the prevailing market prices.

## 31. RELATED PARTY TRANSACTIONS (Continued)

### (c) Balances with related parties:

| Due from an associate | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Shanghai Kamao | **4,705** | 2,442 |

### (d) Compensation of key management personnel of the Group:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **6,152** | 5,183 |
| Performance related bonuses | **798** | 1,059 |
| Equity-settled share-based payment expenses | **3,030** | 2,473 |
| Pension scheme contributions | **232** | 209 |
| | **10,212** | 8,924 |

Further details of directors' emoluments are included in note 8 to the financial statements.

## 32. FINANCIAL INSTRUMENTS BY CATEGORY

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

**Financial assets**

**As at 31 December 2020**

| | Financial assets at fair value through profit or loss RMB'000 | Financial assets at fair value through other comprehensive income: Debt investments RMB'000 | Financial assets at fair value through other comprehensive income: Equity investments RMB'000 | Financial assets at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Debt investments at fair value through other comprehensive income | – | 22,025 | – | – | 22,025 |
| Equity investments designated at fair value through other comprehensive income | – | – | 37,712 | – | 37,712 |
| Financial assets at fair value through profit or loss | 78,214 | – | – | – | 78,214 |
| Accounts receivable and receivables due from third-party game distribution platforms and payment channels | – | – | – | 30,902 | 30,902 |
| Financial assets included in prepayments, other receivables and other assets | – | – | – | 34,172 | 34,172 |
| Cash and cash equivalents | – | – | – | 139,194 | 139,194 |
| | 78,214 | 22,025 | 37,712 | 204,268 | 342,219 |

## 32. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

**Financial assets (Continued)**

As at 31 December 2019

| | Financial assets at fair value through profit or loss RMB'000 | Financial assets at fair value through other comprehensive income: Debt investments RMB'000 | Financial assets at fair value through other comprehensive income: Equity investments RMB'000 | Financial assets at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Debt investments at fair value through other comprehensive income | – | 23,955 | – | – | 23,955 |
| Equity investments designated at fair value through other comprehensive income | – | – | 23,056 | – | 23,056 |
| Financial assets at fair value through profit or loss | 150,905 | – | – | – | 150,905 |
| Accounts receivable and receivables due from third-party game distribution platforms and payment channels | – | – | – | 32,106 | 32,106 |
| Financial assets included in prepayments, other receivables and other assets | – | – | – | 18,351 | 18,351 |
| Cash and cash equivalents | – | – | – | 179,218 | 179,218 |
| | 150,905 | 23,955 | 23,056 | 229,675 | 427,591 |

## 32. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

**Financial liabilities**

| | Financial liabilities at amortised cost | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Financial liabilities included in other payables and accruals | **13,960** | 17,163 |
| Interest-bearing bank loans (note 24) | **63,840** | 116,696 |
| | **77,800** | 133,859 |

## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, accounts receivable and receivables due from third-party game distribution platforms and payment channels, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, and interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the board of directors. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors twice a year for annual financial reporting.

The fair values of debt investments at fair value through other comprehensive income and financial assets at fair value through profit or loss have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows from future proceeds when the investments mature. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values are reasonable, and that they were the most appropriate values at the end of the year.

## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair values of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using the equity transaction price or a market-based valuation technique valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to revenue ("EV/Revenue") multiple or price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by revenue measure or earning measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020 and 2019:

| | Valuation technique | Significant unobservable input | Range | Sensitivity of fair value to the input |
|---|---|---|---|---|
| Certain equity investments (2020 and 2019: three equity investments) | Valuation multiple | Average EV/Revenue multiple of peers | 2020: 5.5 to 7.2 (2019: 6.3 to 6.7) | 5% (2019:5%) increase/ decrease in multiple would result in increase/ decrease in fair value by RMB1,388,000/ RMB1,409,000) (2019: RMB946,000/ RMB946,000) |
| | | Discount for lack of marketability | 2020: 6% to 20% (2019: 7% to 15%) | 5% (2019:5%) increase/ decrease in multiple would result in decrease/ increase in fair value by RMB207,000/ RMB187,000 (2019:RMB190,000/ RMB171,000) |

## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

| | **Valuation technique** | **Significant unobservable input** | **Range** | **Sensitivity of fair value to the input** |
|---|---|---|---|---|
| Certain equity investment (2020: one equity investment 2019: nil) | Valuation multiple | Average P/E multiple of peers | 2020: 31.0 to 34.3 | 5% increase/decrease in multiple would result in increase/decrease in fair value by RMB157,000 |
| | | Discount for lack of marketability | 2020:7% to 16% | 5% increase/decrease in multiple would result in decrease/increase in fair value by RMB17,000 |

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

**Assets measured at fair value:**

**As at 31 December 2020**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted price in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Debt investments at fair value through other comprehensive income | – | 22,025 | – | 22,025 |
| Financial assets at fair value through profit or loss | – | 78,214 | – | 78,214 |
| Equity investments designated at fair value through other comprehensive income | – | – | 37,712 | 37,712 |
| | – | 100,239 | 37,712 | 137,951 |

As at 31 December 2019

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted price in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Debt investments at fair value through other comprehensive income | – | 23,955 | – | 23,955 |
| Financial assets at fair value through profit or loss | – | 150,905 | – | 150,905 |
| Equity investments designated at fair value through other comprehensive income | – | – | 23,056 | 23,056 |
| | – | 174,860 | 23,056 | 197,916 |

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 and 31 December 2019.

For the year ended 31 December 2020, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil).

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings, debt investments at fair value through other comprehensive income, financial assets at fair value through profit or loss, equity investments designated at fair value through other comprehensive income, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and receivables due from third-party game distribution platforms and payment channels and other payables and accruals, which arise directly from its operations.

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

**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.

*Maximum exposure and year-end staging*

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for debt investments at fair value through other comprehensive income, accounts receivable and receivables due from third-party game distribution platform and payment channels and the exposure to credit risk for the financial guarantee contracts.

**As at 31 December 2020**

| | 12-months ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | Simplified approach RMB'000 | Total RMB'000 |
| Debt investments at fair value through other comprehensive income – BBB to BB– | 22,025 | – | – | – | 22,025 |
| Financial assets included in prepayments, other receivables and other assets – Normal** | 34,172 | – | – | – | 34,172 |
| Accounts receivable and receivables due from third-party game distribution platforms and payment channels* | – | – | – | 30,902 | 30,902 |
| Cash and cash equivalents | 139,194 | – | – | – | 139,194 |
| | 195,391 | – | – | 30,902 | 226,293 |

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Credit risk (Continued)**

*Maximum exposure and year-end staging as at 31 December 2020 (Continued)*

As at 31 December 2019

| | 12-months ECLs | | Lifetime ECLs | | |
|---|---|---|---|---|---|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | Simplified approach RMB'000 | Total RMB'000 |
| Debt investments at fair value through other comprehensive income – BBB to BB– | 23,955 | – | – | – | 23,955 |
| Financial assets included in prepayments, other receivables and other assets – Normal** | 18,351 | – | – | – | 18,351 |
| Accounts receivable and receivables due from third-party game distribution platforms and payment channels* | – | – | – | 32,106 | 32,106 |
| Cash and cash equivalents | 179,218 | – | – | – | 179,218 |
| | 221,524 | – | – | 32,106 | 253,630 |

* For accounts receivable and receivables due from third-party game distribution platforms and payment channels to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable and receivables due from third-party game distribution platforms and payment channels are disclosed in note 19 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. At the end of the reporting period, the Group had certain concentrations of credit risk as 29% (2019: 29%) of the Group's accounts receivable and receivables due from third-party game distribution platforms and payment channels were due from the Group's largest counterparty.

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Liquidity risk**

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows and maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

The maturity profile of the Group's financial liabilities at the end of the year, based on the contractual undiscounted payments, is as follows:

**Group**

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Lease liabilities | – | – | 3,979 | 2,747 | – | 6,726 |
| Interest-bearing bank loans | – | – | 10,472 | 52,263 | 3,917 | 66,652 |
| Other payables | 5,525 | 8,435 | – | – | – | 13,960 |
| | 5,525 | 8,435 | 14,451 | 55,010 | 3,917 | 87,338 |

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Lease liabilities | – | – | 1,433 | 3,692 | 5,591 | 10,716 |
| Interest-bearing bank loans | – | 60,586 | 9,340 | 46,770 | – | 116,696 |
| Other payables | 816 | 16,347 | – | – | – | 17,163 |
| | 816 | 76,933 | 10,773 | 50,462 | 5,591 | 144,575 |

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The debt-to-asset ratios as at 31 December 2020 and 31 December 2019 were as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Total liabilities | 144,897 | 220,995 |
| Total assets | 634,063 | 730,730 |
| Debt-to-asset ratio | 23% | 30% |

## 35. EVENT AFTER THE REPORTING PERIOD

With respect to the outbreak of the coronavirus pandemic ("the Pandemic"), the Group has assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2020 and up to the date of this report. The Group will keep paying attention to the situation of the Pandemic and react actively to its impacts on the operation and financial position of the Group.

## 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investments in subsidiaries | | 122,325 | 119,209 |
| Due from subsidiaries | | 234,260 | 224,841 |
| Debt investments at fair value through other comprehensive income | | 22,025 | 23,955 |
| Financial assets at fair value through profit or loss | | 40,932 | 113,264 |
| Total non-current assets | | 419,542 | 481,269 |
| **CURRENT ASSETS** | | | |
| Prepayments, other receivables and other assets | | 456 | 220 |
| Cash and cash equivalents | | 32,943 | 48,262 |
| Total current assets | | 33,399 | 48,482 |
| **CURRENT LIABILITIES** | | | |
| Due to subsidiaries | | 15,000 | 15,189 |
| Other payables and accruals | | 200 | 549 |
| Interest-bearing bank and other borrowings | | – | 60,586 |
| Total current liabilities | | 15,200 | 76,324 |
| **NET CURRENT ASSETS** | | 18,199 | (27,842) |
| **NET ASSETS** | | 437,741 | 453,427 |
| **EQUITY** | | | |
| Share capital | 26 | 1 | 1 |
| Share premium | 26 | 498,453 | 498,453 |
| Reserves (note) | | (60,713) | (45,027) |
| **Total equity** | | 437,741 | 453,427 |

## 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

A summary of the Company's reserves is as follows:

| | Equity-settled share-based payment reserve<br>RMB'000 | Financial assets revaluation reserve<br>RMB'000 | Exchange fluctuation reserve<br>RMB'000 | Accumulated losses<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2019 | 146,554 | (681) | 34,495 | (238,307) | (57,939) |
| Total comprehensive income for the year | – | 3,484 | 7,227 | 579 | 11,290 |
| Equity-settled share-based payment expenses | 1,622 | – | – | – | 1,622 |
| At 31 December 2019 | 148,176 | 2,803 | 41,722 | (237,728) | (45,027) |
| Total comprehensive income for the year | **–** | **932** | **(20,226)** | **492** | **(18,802)** |
| Equity-settled share-based payment expenses | **3,116** | **–** | **–** | **–** | **3,116** |
| At 31 December 2020 | **151,292** | **3,735** | **21,496** | **(237,236)** | **(60,713)** |

## 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of the directors on 31 March 2021.

# DEFINITION

| | |
|---|---|
| "AGM" | the annual general meeting of the Company to be held on Friday, 28 May 2021 |
| "Android" | an operating system developed and maintained by Google Inc. |
| "ARPPU" | average revenue per paying user, calculated by dividing monthly average revenue from the sale of virtual items and premium features during a certain period by the number of average MPUs during the same period |
| "Articles of Association" or "Articles" | the articles of association of the Company adopted on 17 November 2014, as amended from time to time |
| "Audit Committee" | the audit committee of the Board |
| "Board" or "Board of Directors" | the board of Directors |
| "Companies Law" | the Companies Law of the Cayman Islands, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands |
| "Cayman Islands" | the Cayman Islands |
| "CG Code" | Corporate Governance Code as set out in Appendix 14 to the Listing Rules |
| "Chairman" | the chairman of the Board |
| "Chief Executive Officer" | the chief executive officer of our Company |
| "China" or "PRC"or "Mainland China" | the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan |
| "Companies Ordinance" | the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Company", "our Company", "we", "us", "our" or "Feiyu" | Feiyu Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2014 |
| "Contractual Arrangements" | a series of contractual arrangements entered into by Xiamen Feiyu, the PRC Contractual Entities and the Relevant Shareholders |
| "Controlling Shareholder(s)" | has the meaning ascribed thereto under the Listing Rules and, depending on the context, refers to Mr. YAO Jianjun, Mr. BI Lin, YAO Holdings Limited, BILIN Holdings Limited, Jolly Spring International Limited and Rayoon Limited |
| "Director(s)" | directors of the Company |

| | |
|---|---|
| "ESG Report" | Environmental, Social and Governance Report |
| "Executive Director(s)" | the executive Director(s) |
| "Feiyu Hong Kong" | Feiyu Technology Hong Kong Limited (飛魚科技香港有限公司), a direct wholly-owned subsidiary of our Company and a limited company incorporated under the laws of Hong Kong on 25 March 2014 |
| "Global Offering" | the offer of 30,000,000 Shares for subscription by the public in Hong Kong pursuant to the Hong Kong Public Offering and the offer of 270,000,000 Shares for subscription by institutional, professional, corporate and other investors pursuant to the International Offering (as respectively defined in the Prospectus) |
| "Group" | the Company, its subsidiaries and the PRC Operating Entities |
| "HK$" or "Hong Kong dollars" and "cents" | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "IAS(s)" | International Accounting Standards |
| "IASB" | International Accounting Standards Board |
| "IFRS(s)" | International Financial Reporting Standards, amendments and interpretations issued by the IASB |
| "Independent Non-executive Director(s)" | the independent non-executive Director(s) |
| "iOS" | a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple touchscreen technology including, iPhones, iPods, and iPads |
| "IP(s)" | Intellectual Property(ies) |
| "IPO" | initial public offering of the Shares on the Main Board of the Stock Exchange |
| "Kailuo Tianxia" | Beijing Kailuo Tianxia Technology Co., Ltd. (北京凱羅天下科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company |
| "Listing" | the listing of the Shares on the Main Board of the Stock Exchange |

| | |
|---|---|
| "Listing Date" | the date which dealings in Shares first commence on the Main Board of the Stock Exchange, i.e. 5 December 2014 |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time) |
| "MAUs" | monthly active users, which is the number of players who logged into a particular game in the relevant calendar month. Under this metric, a player who logged into two different games in the same month is counted as two MAUs. Similarly, a player who plays the same game on two different publishing platforms in a month would be counted as two MAUs. Average MAUs for a particular period is the average of the MAUs in each month during that period |
| "Meitu" | Meitu, Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands, share of which are listed on the Main Board of Stock Exchange (Stock Code: 1357) |
| "Meitu Networks" | Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司), a limited liability company established under the laws of the PRC, is one of the important consolidated variable interest entities controlled through a series of contractual arrangement by Meitu |
| "Memorandum" | the memorandum of association of the Company adopted on 17 November 2014, as amended from time to time |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| "MPUs" | monthly paying users, which is the number of paying players in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period |
| "Nomination Committee" | the nomination committee of the Board |
| "PC" | personal computer |
| "Post-IPO Share Option Scheme" | the post-IPO share option scheme adopted by the Shareholders on 17 November 2014 |
| "PRC Contractual Entities" | Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia and "PRC Contractual Entity" means any one of them |

| | |
|---|---|
| "PRC Operating Entities" | Xiamen Guanghuan and its subsidiaries and "PRC Operating Entity" means any one of them |
| "Prospectus" | the prospectus dated 25 November 2014 issued by the Company |
| "R&D" | research and development |
| "Relevant Shareholder(s)" | Messrs. YAO Jianjun, BI Lin, CHEN Jianyu, LIN Jiabin, LIN Zhibin, CAI Wensheng (subsequently changed to Ms. CAI Shuting on 21 February 2019) and Ms. CHEN Yongchun, being the registered shareholders of Xiamen Guanghuan |
| "Remuneration Committee" | the remuneration committee of the Board |
| "Renminbi" or "RMB" | Renminbi, the lawful currency of the PRC |
| "RPG" | role-playing games, which involve a large number of players who interact with each other in an evolving fictional world. Each player adopts the role of one or more "characters" who develop specific skill sets (such as melee combat or casting magic spells) and control the character's actions. There are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the players, and the storyline continuously evolves even while the players are offline and away from the games |
| "RSU(s)" | restricted share units or any one of them |
| "RSU Plan II" | the restricted share unit plan II adopted by the Shareholders on 28 May 2018 |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Share(s)" | ordinary share(s) in the share capital of the Company with nominal value of US$0.0000001 each |
| "Shareholder(s)" | holder(s) of Shares |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |

# DEFINITION

| | |
|---|---|
| "subsidiary" or "subsidiaries" | has the meaning ascribed to it in the Listing Rules |
| "US$", "U.S. dollars", "USD" or "United States Dollars" | United States dollars, the lawful currency of the United States of America |
| "Xiamen Feixin" | Xiamen Feixin Internet Technology Co., Ltd. (廈門飛信網絡科技有限公司), a direct wholly-owned subsidiary of Xiamen Feiyu and a limited company established under the laws of the PRC on 13 November 2014 |
| "Xiamen Feiyu" | Xiamen Feiyu Technology Co., Ltd. (廈門飛魚科技有限公司), formerly known as Xiamen Feiyou Information Technology Co., Ltd. (廈門飛遊信息科技有限公司), a direct wholly-owned subsidiary of Feiyu Hong Kong and a limited company established under the laws of the PRC on 24 June 2014 |
| "Xiamen Chenxing" | Xiamen Chenxing Interactive Technology Co., Ltd. (廈門辰星互動信息科技有限公司), as associated company of the Group and a limited company incorporated under the laws of the PRC on 25 October 2017 |
| "Xiamen Guanghuan" | Xiamen Guanghuan Information Technology Co., Ltd. (廈門光環信息科技有限公司), a limited company incorporated under the laws of the PRC on 12 January 2009 |
| "Xiamen Guangling" | Xiamen Guangling Investment Management Co., Ltd. (廈門市光翎投資管理有限公司), formerly known as Xiamen Guangyu Investment Management Co., Ltd. (廈門市光娛投資管理有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company |
| "Xiamen Xianglian" | Xiamen Xianglian Technology Co., Ltd. (廈門享聯科技股份有限公司), a joint stock limited company established under the law of the PRC |
| "Xiamen Yidou" | Xiamen Yidou Internet Technology Co., Ltd. (廈門翼逗網絡科技有限公司), an indirect wholly-owned subsidiary of the Company and a limited company established under the laws of the PRC on 11 June 2012 |
| "Xiamen Youli" | Xiamen Youli Information Technology Co., Ltd. (廈門游力信息科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company |

In this annual report, the terms "associate", "connected person", "connected transaction" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.