



Jiu Zun Digital Interactive Entertainment Group Holdings Limited
九尊數字互娛集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1961

ANNUAL REPORT
2020



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LU Jian (*Chairman*)

Mr. LIANG Junhua

Non-executive Directors

Ms. SU Shaoping

Mr. TSUI Wing Tak

Independent non-executive Directors

Mr. ZHAO Junfeng

Mr. ZHUANG Wensheng

Ms. SONG Yi

AUDIT COMMITTEE

Mr. ZHAO Junfeng (*Chairman*)

Mr. ZHUANG Wensheng

Ms. SONG Yi

REMUNERATION COMMITTEE

Mr. ZHUANG Wensheng (*Chairman*)

Mr. ZHAO Junfeng

Ms. SONG Yi

NOMINATION COMMITTEE

Mr. LU Jian (*Chairman*)

Mr. ZHAO Junfeng

Mr. ZHUANG Wensheng

AUTHORIZED REPRESENTATIVES

Mr. LIANG Junhua

Mr. TSUI Wing Tak

COMPANY SECRETARY

Mr. TSUI Wing Tak

COMPLIANCE ADVISER

Lego Corporate Finance Limited

Room 1601, 16/F

China Building

29 Queen's Road Central

Central

Hong Kong

AUDITORS

Ernst & Young

Certified Public Accountants

Registered Public Interest Entity Auditor

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

REGISTERED OFFICE

Cricket Square

Hutchins Drive, PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Suite 1801

R&F To-win Building

30 Huaxia Road

Zhujiang New Town

Tianhe District

Guangzhou

PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6/F, Tower 1

Admiralty Centre

18 Harcourt Road

Admiralty

Hong Kong

Corporate Information *(Continued)*

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 AND TRANSFER OFFICE

Tricor Investor Services Limited

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

PRINCIPAL BANKER

China Merchants Bank

(Guangzhou Huangpu Avenue Branch)

5/F, Unicom New Space Time Plaza
No. 666 West Huangpu Road
Guangzhou
PRC

COMPANY'S WEBSITE

www.jiuzundigital.com

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

1961

Financial Highlights

RESULTS

	Year ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	170,179	219,194	142,979	170,654	139,755
Gross profit	55,638	79,572	62,319	76,756	65,099
Income tax expense	(4,398)	(13,867)	(7,036)	(10,617)	(8,276)
Profit for the year	1,023	41,208	51,667 ⁽¹⁾	50,638	40,579
Add:					
Listing expenses	13,021	9,050	4,550	4,955	300
Less:					
Reversal of impairment/(impairment) of trade receivables	(1,045)	706	17,273	–	–
Adjusted profit for the year ⁽²⁾	15,089	49,552	38,944	55,593	40,879

Notes:

- (1) Profit for the year includes the reversal of impairment losses on trade receivables of RMB17.3 million for the year ended 31 December 2018.
- (2) "Adjusted profit" is not defined under the Hong Kong Financial Reporting Standards ("HKFRS"). It is defined by the Group as net profit excluding the listing expenses and reversal of impairment/(impairment) of trade receivables. The Directors believe that they are useful supplements to the consolidated statement of profit or loss. The adjusted profit reflects another perspective to the profitability of the Group's operations after excluding the listing expenses and reversal of impairment/(impairment) of trade receivables.

Financial Highlights *(Continued)*

ASSETS AND LIABILITIES

	As at 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Assets					
Non-current assets	74,162	6,196	684	1,007	305
Current assets	181,007	185,356	161,982	184,679	177,938
Total assets	255,169	191,552	162,666	185,686	178,243
Equity and liabilities					
Total equity	226,262	125,396	84,359	82,895	102,257
Non-current liabilities	2,164	1,389	–	–	–
Current liabilities	26,743	64,767	78,307	102,791	75,986
Total liabilities	28,907	66,156	78,307	102,791	75,986
Total equity and liabilities	255,169	191,552	162,666	185,686	178,243

Chairman's Statement

Dear Shareholders,

On behalf of the Board of the Company, I am pleased to present the annual report of the Group for the year ended 31 December 2020.

OVERVIEW

We are a digital entertainment content provider in the PRC with a diversified content portfolio comprising (i) mobile games mainly played on Android operating system; (ii) e-magazines; and (iii) other digital media content such as comics and music. We commenced our digital media content distribution business in 2011, and expanded our product offerings to mobile games in 2014 when we first began to develop and/or operate a wide range of casual mobile games. Apart from casual mobile games which we focused primarily before 2017, we also commenced development and operation of boutique mobile games since 2017 and launched our first multi-player mobile game in January 2019.

RESULTS

2020 was a challenging year to the Group, with the outbreak of the COVID-19 and the change of preference of the customers as a result, the profit of the Group decreased. During the year, the Group invested in research and development ("**R&D**") and released new games in different genres to diversify its product offerings especially in multi-player mobile games.

The Group's revenue decreased by approximately RMB49.0 million or 22.4% from approximately RMB219.2 million for the year ended 31 December 2019 to approximately RMB170.2 million for the year ended 31 December 2020. The decrease of the Group's revenue is mainly due to the decrease in revenue from our mobile game development and operation business by approximately RMB36.8 million and the decrease in revenue from digital media content distribution business of approximately RMB10.1 million. The gross profit also decreased by approximately RMB24.0 million or 30.1% from approximately RMB79.6 million for the year ended 31 December 2019 to approximately RMB55.6 million for the year ended 31 December 2020 which was principally due to the substantial decline of approximately 83.3% in revenue attributable to the single-player mobile games in FY2020 as compared to the same period of FY2019, which was principally due to the unexpected impacts against the Group in the second quarter of FY2020 after the Listing caused by the COVID-19 epidemic and the subsequent quarantine measures imposed by the PRC government, including, among others: (i) change of player preference from the single-player mobile games (of which the Group historically and primarily relied on in its financial performance) to multi-player mobile games during FY2020; and (ii) an unexpected increase in level of competition intensity resulting in the top-set places in the distribution platforms were mostly occupied by the games operated by the major game operators. Although the revenue from the development and operation of the multi-player mobile games increased by approximately 103.8% as compared to the revenue of the same business line of approximately RMB64.8 million for the year ended 31 December 2019, the decline of revenue attributable to the single-player mobile games outweighed the promising performance of the multi-player mobile games, the Group invariably recorded a decline in the Group's overall revenue and its financial results.

Chairman's Statement *(Continued)*

OUTLOOK

The Group has always been committed to be a digital entertainment content provider. According to an independent third-party research report, China's mobile games market reached RMB209.2 billion in 2019, and is expected to further grow to RMB425.6 billion in 2025, representing a CAGR of 12.6%. Generation Z+ users on average spend 31.8 minutes on mobile games every day in 2020.

An outbreak of COVID-19 in early 2020 has led to a major challenge for the global economy. Under the effective control measures of the PRC government, the epidemic has generally been under control. Based on the current situation of the COVID-19, our mobile games can continue to be downloaded and played by players and digital media content can continue to be subscribed with all settlement services continued. We are also able to continue our cooperation with our suppliers and business partners through electronic media and telephone and remote access to our information technology system. However, since the second half of 2020, the onset of waves of the pandemic has once again cast a shadow over the prospects of the global economy and enhanced the market competition intensity in FY2020.

PROSPECTS

In 2021, the Company will continue to switch its focus from single-player mobile games development and operation business to multi-player mobile games development and operation business due to the unexpected change of player preference from single-player mobile games to multi-player mobile games since the second quarter of FY2020. With the shift of focus of the Group to multi-player mobile game development and operation business, majority of the Group's revenue is expected to be derived from multi-player mobile game development and operation business in the future.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my heartfelt gratitude to our shareholders, members of the Board, senior management and all our staffs for their dedication and contribution during the year. On the behalf of the Board, I would like to thank our clients, suppliers, and business partners for their relentless support and trust. Going forward, we shall strive to explore further opportunities and overcome challenges, as we remain steadfast and committed to attaining better result for the Group.

LU Jian

Chairman

30 March 2021

Report of Directors

The Directors are pleased to present this annual report together with the audited financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consisted of mobile game development and operations and distribution of digital media content in the PRC.

Details of the principal activities of the principal subsidiaries are set out in note 1 to the Financial Statements.

RESULTS

The results of the Group for the year ended 31 December 2020 and the Group's financial position at that date are set out in the financial statements on pages 67 to 73 of this annual report.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020 is set out in the sections headed "Financial Highlights", "Chairman's Statement" and "Management Discussion and Analysis" on pages 4 to 5, pages 6 to 7 and pages 32 to 38 of this annual report, respectively.

Description of principal risks and uncertainties that the Group may be facing can be found in the sections headed "Management Discussion and Analysis — Principal Risks and Uncertainties" on page 38 of this annual report. An analysis of the Group's performance during the year using financial key performance indicators is set out in the section headed "Management Discussion and Analysis" on pages 32 to 38 of this annual report.

The Company is in compliance with the relevant laws and regulation that have a significant impact on the Company for the Period.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2020 (for the year ended 31 December 2019: HK2.52 cents per share in cash) in consideration of the unstable economy and rapid changing market. The Board tend to increase Company's reserve under the current circumstance, thus the final dividend for the year ended 31 December 2020 will not meet our target dividend payment ratio of not less than 30% of our distributable profits for the corresponding financial year as disclosed in the prospectus of the Company dated 27 February 2020 (the "**Prospectus**").

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended 31 December 2020 are set out in note 27 to the Financial Statements.

RESERVES

Details of the movements in reserves of the Group during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 124 of this annual report and in note 28 to the Financial Statements.

Report of Directors *(Continued)*

USE OF PROCEEDS

The net proceeds raised by the Company from the Listing are approximately RMB79.2 million (after deduction of the underwriting commissions in respect of the offering and other estimated expenses). For the year ended 31 December 2020, the IPO proceeds were utilized in accordance with the intended purposes stated in the Prospectus published by the Company, with the balance amounted to approximately RMB12.0 million. The balance of IPO proceeds will continue to be utilized according to the manner and proportions as disclosed in the Prospectus.

Since the Listing Date and up to 31 December 2020, the net proceeds from the Listing had been applied as follows:

	Net amount available as at 17 March 2020	Actual net amount utilized for the year ended 31 December 2020	Unutilized net amount as at 31 December 2020	Expected timeline for utilising the remaining net proceeds <i>(Note)</i>
	RMB million	RMB million	RMB million	
Expand market share in single-player mobile games	19.2	14.7	4.5	By 31 December 2021
Expedite multi-player mobile game market	12.2	6.0	6.2	By 31 December 2021
Obtain licensing rights of popular entertainment properties	16.1	16.1	–	N/A
Enrich our digital media content	1.0	0.1	0.9	By 31 December 2021
Strategic acquisitions and partnerships with mobile game developers	24.1	24.1	–	By 31 December 2021
Working capital and general corporate use	6.6	6.2	0.4	N/A
Total	79.2	67.2	12.0	

Note: The expected timeline for utilising the remaining net proceeds is based on the best estimation of future market conditions made by the Group and is consistent with that as described in the Prospectus. It might be subject to changes based on the current and future development of the market conditions.

TAX RELIEF

The Company is not aware of any relief on taxation to the Shareholders by reasons of their holdings of the Shares. If the Shareholders are unsure about the taxation implication of purchasing, holding, disposing of, dealing in, or exercise of any rights in relation to the Shares, they are advised to consult their professional advisers.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company had distributable reserves of approximately RMB106.0 million.

FINANCIAL HIGHLIGHTS

A summary of the Results and the Assets and Liabilities of the Group is set out on page 4 to 5 of this annual report. This summary does not form part of the audited financial statements.

Report of Directors *(Continued)*

BORROWINGS

During the year ended 31 December 2020, the Group did not have any short-term or long-term bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant unrecorded contingent liabilities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued shares were held by the public as at the date of this report.

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

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association, or the laws of the Cayman Islands, and there is no restriction against such rights which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

DIRECTORS

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

Executive Directors

Mr. LU Jian (*Chairman*)

Mr. LIANG Junhua

Non-executive Directors

Ms. SU Shaoping

Mr. TSUI Wing Tak

Independent Non-executive Directors

Mr. ZHAO Junfeng

Mr. ZHUANG Wensheng

Ms. SONG Yi

Report of Directors *(Continued)*

According to our articles of association, one-third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company, provided that every Director shall retire from office by rotation and are subject to re-election at annual general meeting at least once every three years. Directors who are appointed to fill casual vacancies shall hold office only until the next following general meeting after their appointment, and are subject to re-election by shareholders of the Company.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive Directors, namely Mr. ZHAO Junfeng, Mr. ZHUANG Wensheng and Ms. SONG Yi 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 these Directors and considers all the Independent Non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 54 to 61 of this annual report.

DIRECTORS' SERVICE CONTRACTS

The Executive Directors, Mr. LU Jian (Chairman) and Mr. LIANG Junhua, have entered into a service contract with our Company for a term of three years commencing from the Listing Date until terminated by not less three months' notice in writing served by either party on the other.

The Non-executive Directors, Ms. SU Shaoping and Mr. TSUI Wing Tak, have been appointed for an initial term of three years commencing from the Listing Date pursuant to a letter of appointment. Either our Company or the Non-executive Directors may give a three months' written notice to the other party for early termination of appointment. The appointment is subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

The Independent Non-executive Directors, Mr. ZHAO Junfeng, Mr. ZHUANG Wensheng and Ms. SONG Yi, have been appointed for an initial term of three years commencing from the Listing Date pursuant to a letter of appointment. Either our Company or the Independent Non-executive Directors may give a three months' written notice to the other party for early termination of appointment. The appointments are subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company, any of our subsidiaries, or our Consolidated Affiliated Entities (excluding contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

Report of Directors *(Continued)*

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

As at 31 December 2020, the interests and short positions of the Directors and chief executives at the relevant time being in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), 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) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Interest in Shares and underlying Shares

Name of Director	Capacity/Nature of Interest	Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding
Mr. Liang ⁽²⁾⁽⁵⁾	Interest in a controlled corporation/interest held jointly with other persons	337,688,008 (L)	61.85%
Mr. Lu ⁽³⁾⁽⁵⁾	Interest in a controlled corporation/interest of spouse/interest held jointly with other persons	337,688,008 (L)	61.85%
Ms. Su ⁽⁴⁾⁽⁵⁾	Interest in a controlled corporation/interest held jointly with other persons	337,688,008 (L)	61.85%
Mr. Tsui ⁽⁶⁾	Interest in a controlled corporation	16,801,570 (L)	3.08%

Notes:

- (1) The letter "L" denotes a person's long position in our Shares.
- (2) Mr. Liang is the sole shareholder of JLCY SAGA which holds 126,632,022 Shares (representing approximately 23.19% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Mr. Liang is deemed to be interested in the Shares in which JLCY SAGA is interested.
- (3) Mr. Lu and Ms. He owns 99.90% and 0.10% shareholding in LJHJH SAGA respectively. LJHJH SAGA holds 105,527,993 Shares (representing approximately 19.33% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. Mr. Lu is the husband of Ms. He. By virtue of the SFO, each of Mr. Lu and Ms. He is deemed to be interested in the Shares in which LJHJH SAGA is interested.
- (4) Ms. Su is the sole shareholder of WW SAGA which holds 105,527,993 Shares (representing approximately 19.33% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Ms. Su is deemed to be interested in the Shares in which WW SAGA is interested.
- (5) Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. As such, each of Mr. Liang, Mr. Lu and Ms. Su is deemed to be interested in the Shares held by the others under the SFO.
- (6) Mr. Tsui holds 86.67% shareholding in AE Majoris Tech which holds 16,801,570 Shares (representing approximately 3.08% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Mr. Tsui is deemed to be interested in the Shares in which AE Majoris Tech is interested.

Report of Directors *(Continued)*

(ii) Interest in associated corporations

Name of Director	Name of our Company's associated corporation	Capacity/Nature of Interest	Approximate percentage of shareholding
Mr. LIANG Junhua	JLCY SAGA	Interest in a controlled corporation	100%
	Guangzhou Jiu Zun ⁽¹⁾	Beneficial interest/interest held jointly with other persons	86.02%
Mr. LU Jian	LJHJH SAGA	Interest in a controlled corporation	100%
	Guangzhou Jiu Zun ⁽²⁾	Interest in a controlled corporation/interest of spouse/interest held jointly with other persons	86.02%
Ms. SU Shaoping	WW SAGA	Interest in a controlled corporation	100%
	Guangzhou Jiu Zun ⁽³⁾	Interest in a controlled corporation/interest held jointly with other persons	86.02%

Notes:

- Mr. Liang owns 32.26% capital contribution in Guangzhou Jiu Zun. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. Mr. Liang, Mr. Lu and Ms. Su directly or indirectly own an aggregate of 86.02% capital contribution in Guangzhou Jiu Zun. As such, Mr. Liang is deemed to be interested in 86.02% capital contribution in Guangzhou Jiu Zun under the SFO.
- Mr. Lu owns 100% capital contribution in Yingtan Jianming Investment, which in turn owns 99.90% capital contribution in Yujiang Yingming Investment, which in turn owns 26.88% capital contribution in Guangzhou Jiu Zun. Ms. He owns 100% capital contribution in Yingtan Jianying Investment, which in turn owns 0.10% capital contribution in Yujiang Yingming Investment. Mr. Lu is the husband of Ms. He. By virtue of the SFO, each of Mr. Lu and Ms. He is deemed to be interested in the capital contribution in which their spouse is interested. As such, Mr. Lu is deemed to be interested in 26.88% capital contribution in Guangzhou Jiu Zun in which Yujiang Yingming Investment is interested. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. Mr. Liang, Mr. Lu and Ms. Su directly or indirectly own an aggregate of 86.02% capital contribution in Guangzhou Jiu Zun. As such, Mr. Lu is deemed to be interested in 86.02% capital contribution in Guangzhou Jiu Zun under the SFO.
- Ms. Su owns 100% capital contribution in each of Yingtan Jiancheng Investment and Yingtan Jianhe Investment. Yingtan Jiancheng Investment and Yingtan Jianhe Investment own 99.90% and 0.10% capital contribution in Yujiang Chenghe Investment respectively, which in turn owns 26.88% capital contribution in Guangzhou Jiu Zun. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. Mr. Liang, Mr. Lu and Ms. Su directly or indirectly own an aggregate of 86.02% capital contribution in Guangzhou Jiu Zun. As such, Ms. Su is deemed to be interested in 86.02% capital contribution in Guangzhou Jiu Zun under the SFO.

Report of Directors *(Continued)*

SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, the following persons will have an interest or short position in our Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Shareholder	Capacity/Nature of Interest	As at the date of this report		Immediately following completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering	
		Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding	Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding
JLCY SAGA ⁽²⁾	Beneficial owner	86,022	86.02%	337,688,008 (L)	61.85%
Mr. Liang ⁽²⁾	Interest in a controlled corporation/interest held jointly with other persons	86,022	86.02%	337,688,008 (L)	61.85%
LJHJH SAGA ⁽³⁾	Beneficial owner	86,022	86.02%	337,688,008 (L)	61.85%
Mr. Lu ⁽³⁾	Interest in a controlled corporation/interest of spouse/interest held jointly with other persons	86,022	86.02%	337,688,008 (L)	61.85%
Ms. He ⁽³⁾	Interest in a controlled corporation/interest of spouse/interest held jointly with other persons	86,022	86.02%	337,688,008 (L)	61.85%
WW SAGA ⁽⁴⁾	Beneficial owner	86,022	86.02%	337,688,008 (L)	61.85%
Ms. Su ⁽⁴⁾	Interest in a controlled corporation/interest held jointly with other persons	86,022	86.02%	337,688,008 (L)	61.85%
DW SAGA ⁽⁵⁾	Beneficial owner	7,527(L)	7.53%	29,547,995 (L)	5.41%
Mr. Xu ⁽⁵⁾	Interest in a controlled corporation	7,527(L)	7.53%	29,547,995 (L)	5.41%

Notes:

- (1) The letter "L" denotes a person's long position in our Shares.
- (2) Mr. Liang is the sole shareholder of JLCY SAGA which holds 126,632,022 Shares (representing approximately 23.19% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Mr. Liang is deemed to be interested in the Shares in which JLCY SAGA is interested. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. As such, each of Mr. Liang, Mr. Lu and Ms. Su is deemed to be interested in the Shares held by the others under the SFO.
- (3) Mr. Lu and Ms. He owns 99.90% and 0.10% shareholding in LJHJH SAGA respectively. LJHJH SAGA holds 105,527,993 Shares (representing approximately 19.33% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. Mr. Lu is the husband of Ms. He. By virtue of the SFO, each of Mr. Lu and Ms. He is deemed to be interested in the Shares in which LJHJH SAGA is interested. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. As such, each of Mr. Liang, Mr. Lu and Ms. Su is deemed to be interested in the Shares held by the others under the SFO.

Report of Directors *(Continued)*

- (4) Ms. Su is the sole shareholder of WW SAGA which holds 105,527,993 Shares (representing approximately 19.33% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Ms. Su is deemed to be interested in the Shares in which WW SAGA is interested. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. As such, each of Mr. Liang, Mr. Lu and Ms. Su is deemed to be interested in the Shares held by the others under the SFO.
- (5) Mr. Xu is the sole shareholder of DW SAGA which holds 29,547,995 Shares (representing approximately 5.41% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Mr. Xu is deemed to be interested in the Shares in which DW SAGA is interested.

Save as disclosed in this report, our Directors are not aware of any person who will, immediately following completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme), have an interest or a short position in our Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group. Our Directors are not aware of any arrangement which may result in a change of control of our Company at a subsequent date.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year ended 31 December 2020 and up to the date of this report was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, 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 any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Group (including the PRC Operational Entities), none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group for the year ended 31 December 2020.

MATERIAL ACQUISITION AND DISPOSAL

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for material investments or additions of capital assets during the year ended 31 December 2020.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Save as disclosed in this annual report, there were no other significant investments (being investment in companies with a value of 5% of the Group's total asset as of 31 December 2020) held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for other material investments or additions of capital assets during the year ended 31 December 2020.

Report of Directors *(Continued)*

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

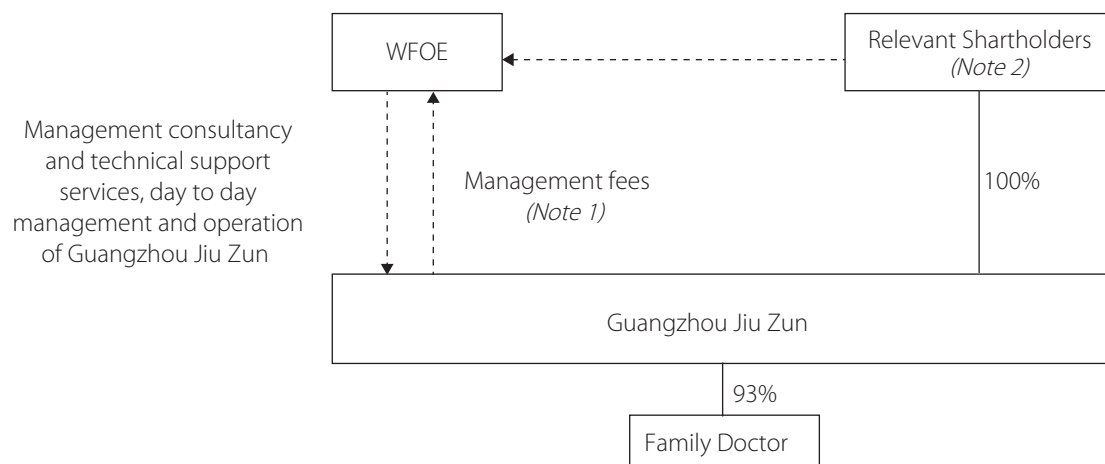
The related party transactions which were undertaken in the year ended 31 December 2020 are set out in Note 31 to the financial statements in this annual report. During FY2020, a Financial advisory and company secretary service fee was charged by a company which it is a connected person of the group. This transaction fall under the definition of “connected transactions” and “continuing connected transactions” under Chapter 14A of the Listing Rules. For further information, please refer to the Note 31 to the financial statements.

Besides the transaction mentioned above, the Group has not entered into any connected transactions or continuing connected transactions that are no exempted under Rule 14A.73 of the listing rules (other than those described in the section headed “Report of Directors — Contractual Arrangements”). The Group had complied with all the disclosure requirements under Chapter 14A of the Listing rules.

CONTRACTUAL ARRANGEMENTS

Our business are operated principally under two business lines: (i) mobile game development and operation; and (ii) digital media content distribution. We conduct our business through our Consolidated Affiliated Entities, comprising of Guangzhou Jiu Zun and its subsidiaries. As the operation of our businesses in the PRC is subject to foreign investment restrictions under PRC law, our Company is unable to own or hold any direct or indirect equity interest in our Consolidated Affiliated Entities. Investment activities in the PRC by foreign investors are mainly governed by the Guidance Catalog of Industries for Foreign Investment (the “**Catalog**”), which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Catalog divides industries into four categories in terms of foreign investment, including “encouraged,” “restricted” and “prohibited,” and all industries not listed under any of these categories are deemed to be “permitted.” According to the Catalog, the (i) mobile game development and operation and (ii) digital media content distribution that our Company currently operates falls into the internet cultural business which is considered “prohibited,” and relates to the value-added telecommunications services which is considered “restricted.” As a result of the foregoing, on 23 February 2019, we entered into a series of Contractual Arrangements with Guangzhou Jiu Zun through WFOE to conduct our businesses in the PRC in order to comply with the applicable PRC laws and regulations and to assert management control over the operations of, and enjoy all economic benefits of Guangzhou Jiu Zun. The existing agreements underlying such contractual arrangements with Guangzhou Jiu Zun include (a) the Management Services Agreement; (b) the Irrevocable Option Agreement; (c) the Equity Pledge Agreement; (d) the Intellectual Property Transfer and Licence Agreement; and (e) the Voting Rights Proxy Agreements and Powers of Attorney.

The following simplified diagram illustrates the flow of economic benefits from the Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



Report of Directors *(Continued)*

Notes:

- (1) WFOE provides Management consultancy and technical support services, day to day management and operation and other services in exchange for service fees from Guangzhou Jiu Zun. Please refer to the paragraph headed "Summary of the Contractual Arrangements" below.
- (2) The Relevant Shareholders are Mr. Liang, Yujiang Chenghe Investment, Yujiang Yingming Investment, Mr. Xu and Ms. Zhang, holding 32.26%, 26.88%, 26.88%, 7.53% and 6.45% shares in Guangzhou Jiu Zun, respectively.
- (3) "—" denotes direct legal and beneficial ownership in the equity interest and "- -" denotes contractual relationship through the Contractual Arrangements

Summary of the Contractual Arrangements

(a) *Management Services Agreement*

Under the management services agreement dated 23 February 2019 among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders (the "**Management Services Agreement**"), Guangzhou Jiu Zun agreed to pay a management fee to WFOE and WFOE agreed to provide management consultancy services to Guangzhou Jiu Zun on an exclusive basis and shall be responsible for the day to day management and operation of Guangzhou Jiu Zun, including:

- conducting market research and investigation, formulating Guangzhou Jiu Zun's budget, business objectives, development guidelines and expansion strategies, expanding and promoting Guangzhou Jiu Zun's business plan and determining Guangzhou Jiu Zun's service charges;
- formulating and implementing various business processes, case approval systems and risk control management systems;
- establishing the administrative system of Guangzhou Jiu Zun, selecting and nominating competent persons with related experience as directors, general managers, senior management and employees of Guangzhou Jiu Zun and providing staff training as and when necessary or appropriate;
- disposing of Guangzhou Jiu Zun's assets;
- formulating and implementing the accounting and financial systems and internal control systems; and
- entering into licensing agreements (including software, trademarks, patents and technical secrets) of intellectual property directly or through WFOE's nominated parties, such agreements shall allow Guangzhou Jiu Zun to use, when required by business, WFOE's relevant intellectual property.

Report of Directors *(Continued)*

Summary of the major terms of the structured contracts under the Management Services Agreement

- (i) Under the Management Services Agreement, the service fee shall be in the amount equivalent to the total revenue of Guangzhou Jiu Zun after deducting all relevant costs, expenses and taxes payable by Guangzhou Jiu Zun. If there is a loss for a particular year, the service fee shall not accrue until Guangzhou Jiu Zun achieves a surplus. WFOE shall calculate the service fee on a six-month basis and issue a corresponding invoice to Guangzhou Jiu Zun.
- (ii) The Management Services Agreement also provides that WFOE shall enjoy exclusive proprietary rights over all rights, ownership and intellectual property developed or created by Guangzhou Jiu Zun, including but not limited to copyrights, patents, patent applications, trademarks, software, technical secrets, trade secrets and others.
- (iii) Under the Management Services Agreement, the Relevant Shareholders agreed to pledge all their respective equity interests in Guangzhou Jiu Zun to WFOE as a security interest to guarantee the obligation of Guangzhou Jiu Zun under the Management Services Agreement by way of entering into the Equity Pledge Agreement.
- (iv) The Management Services Agreement shall remain effective unless terminated in accordance with the provisions of the Management Services Agreement. Any of the parties to the Management Services Agreement may give written notice to the other to terminate part of or the whole Management Services Agreement if the parties are unable to continue their performance of the Management Services Agreement due to legal restrictions, national policies, government administrative actions or any of the events as set out below, including but not limited to:
 - where a party breaches any provisions of the Management Services Agreement, such breach rendering the performance of the Management Services Agreement impossible, and such breach is not rectified within 20 days of the written notice given by the non-defaulting party;
 - where a force majeure event has occurred for more than 120 days; and
 - where PRC laws allows WFOE to directly hold equity interest in Guangzhou Jiu Zun and the Relevant Shareholders have completed the registration of the transfer of equity interest in Guangzhou Jiu Zun to WFOE with the relevant administration for industry and commerce in accordance with PRC laws.

Report of Directors *(Continued)*

(b) Irrevocable Option Agreement

Under the irrevocable option agreement dated 23 February 2019 among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders (the “**Irrevocable Option Agreement**”), Guangzhou Jiu Zun and the Relevant Shareholders agreed to irrevocably grant to WFOE the exclusive right to purchase all or part of the equity interest in Guangzhou Jiu Zun and agreed that WFOE has right to transfer such purchase right to a third party without the consent of Guangzhou Jiu Zun and the Relevant Shareholders.

Summary of the major terms of the structured contracts under the Irrevocable Option Agreement

The Relevant Shareholders, among other things, have covenanted that:

- (i) They shall not sell, transfer, mortgage, lease, gift or otherwise dispose of the equity interest in Guangzhou Jiu Zun or establish any limits on the rights of the relevant equity without the written consent of WFOE;
- (ii) They shall not sell, transfer, mortgage, or otherwise dispose of the assets, obligations, income or benefit rights of Guangzhou Jiu Zun or establish any encumbrances over such assets, obligations, income or benefit rights of Guangzhou Jiu Zun without the written consent of WFOE;
- (iii) They shall not involve Guangzhou Jiu Zun separately or collectively in any transaction that may have a material bearing on Guangzhou Jiu Zun’s assets, liabilities, operations, shareholders’ equity, or other legal rights (unless the transaction relates to Family Doctor’s daily operations or the Relevant Shareholders have already notified WFOE and WFOE has agreed in writing);
- (iv) They shall not supplement or modify the constitutional documents of Guangzhou Jiu Zun either separately or collectively in any form, nor shall it increase or decrease Guangzhou Jiu Zun’s registered capital or otherwise change its registered capital structure so as to result in a material change in Guangzhou Jiu Zun’s assets, liabilities, business, shareholders’ equity or other legal rights;
- (v) They shall not sign, make, perform or procure other necessary persons to sign, make or perform any action, any contracts, undertakings, instruments and documents as required by WFOE that may lead to WFOE or a third party designated by it to validly obtain the equity interest in Guangzhou Jiu Zun free of encumbrances;
- (vi) They shall not procure or permit Guangzhou Jiu Zun or any other person to merge or unite, or to acquire or invest in any other person, or procure or permit Guangzhou Jiu Zun to sell any assets of RMB100,000 or above without the prior written consent of WFOE;
- (vii) They shall operate Guangzhou Jiu Zun prudently and safeguard Guangzhou Jiu Zun’s assets and take all necessary measures to maintain the integrity of Guangzhou Jiu Zun’s equity interest;
- (viii) They shall notify WFOE of any litigation, arbitration or administrative proceedings that will occur or may occur in relation to Guangzhou Jiu Zun’s assets, business or income;

Report of Directors *(Continued)*

- (ix) They shall sign all necessary or appropriate documents, take all necessary or appropriate actions or raise any necessary or appropriate complaints or appropriate defenses against any claims to protect Guangzhou Jiu Zun's rights to its assets;
- (x) They shall ensure Guangzhou Jiu Zun does not distribute dividends in any form to its shareholders without the prior written consent of WFOE. Guangzhou Jiu Zun shall immediately distribute all distributable profits to its shareholders upon the written request of WFOE;
- (xi) at the request of WFOE, they shall appoint any person nominated by WFOE to act as a director of Guangzhou Jiu Zun and/or to remove any existing director of Guangzhou Jiu Zun;
- (xii) Guangzhou Jiu Zun may not be dissolved or liquidated without WFOE's written consent unless required by PRC law; and
- (xiii) They shall not do anything that may threaten or adversely affect WFOE's right to purchase shares. If there is any possibility of circumstances that may threaten or adversely affect such right, it shall immediately notify WFOE.

The Relevant Shareholders have undertaken that, subject to the relevant laws and regulations, they will return to WFOE any consideration they receive in the event that WFOE exercises the option under the Irrevocable Option Agreement to acquire the equity interests in Guangzhou Jiu Zun.

The Relevant Shareholders have also undertaken, in the event of death or any other event which causes the inability of the shareholder to perform their day-to-day obligations, bankruptcy, marriage or divorce, to transfer all of the equity interests, including rights and obligations in Guangzhou Jiu Zun, held by them without consideration to WFOE or an individual or legal entity designated by WFOE under applicable PRC laws.

The Irrevocable Option Agreement shall remain effective until it is terminated in accordance with the provision of the Irrevocable Option Agreement.

Report of Directors *(Continued)*

(c) Equity Pledge Agreement

Under the equity pledge agreement dated 23 February 2019 entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders (the “**Equity Pledge Agreement**”), the Relevant Shareholders agreed to pledge all their respective equity interests (the “**Pledged Equity Interests**”) in Guangzhou Jiu Zun, the aggregate being the entire equity interest in Guangzhou Jiu Zun, including any interest or dividend paid for the shares, to WFOE as a security interest to guarantee the obligation of Guangzhou Jiu Zun to pay the management fee under the Management Services Agreement to WFOE.

Summary of the major terms of the structured contracts under the Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement, the Relevant Shareholders and Guangzhou Jiu Zun undertake to WFOE that each of them shall not, among other matters:

- (a) transfer the Pledged Equity Interests or create or allow further pledge or encumbrance over the Pledged Equity Interests without the prior written consent of WFOE;
- (b) dispose of or in any other form to dispose of the current assets of the Relevant Shareholders and Guangzhou Jiu Zun (otherwise than disposals arising in the normal operations), including but not limited to transfer, sale, assign, mortgage, pledge, lien, lease, give away the aforesaid current assets or set restrictions thereon;
- (c) enter into or incur any external loan or give any guarantee for any external loan without the prior written consent of WFOE (otherwise than the normal operations);
- (d) change its key management personnel, including but not limited to directors, deputy directors, general manager, deputy general manager, chief financial officers, without the prior written consent of WFOE;
- (e) declare dividends as well as petition for bankruptcy, liquidation, dissolution, termination, corporate separation and merger without the prior written consent of WFOE;
- (f) alter its constitutional documents and change of its company’s name or business scopes without the prior written consent of WFOE; and
- (g) take away the core businesses of its controlled entities or do any things that will cause or incur substantial loss or reduction of net asset value of its controlled entities.

Apart from the above, the Relevant Shareholders and Guangzhou Jiu Zun shall irrevocably authorize and agree WFOE and its accountants, legal counsels and authorized agents to enter its place of business at reasonable time, and to allow them to inspect and examine the book of accounts, financial statements, records and any other documents in relation to the Pledged Equity Interests or the exercise or implementation of the rights of WFOE as contemplated under the Equity Pledge Agreement.

Report of Directors *(Continued)*

The aforementioned rights of WFOE are legally binding and enforceable. Yujiang Chenghe Investment and Yujiang Yingming Investment are legally established limited partnerships with full capacity for civil conduct and civil rights under PRC laws, therefore both of them are eligible to sign the Contractual Arrangements, and can bear corresponding legal liabilities according to the Contractual Arrangements.

The pledge in respect of Guangzhou Jiu Zun takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until all the contractual obligations of the Relevant Shareholders and Guangzhou Jiu Zun under the Equity Pledge Agreement have been fully performed and all the outstanding debts of the Relevant Shareholders and Guangzhou Jiu Zun under the relevant Management Services Agreement have been fully paid.

If Guangzhou Jiu Zun fails to perform its obligations under the Management Services Agreement, or if the Relevant Shareholders or Guangzhou Jiu Zun violates any of the obligations under the Equity Pledge Agreement, WFOE shall have the right to exercise all its rights as a secured party under any applicable PRC law and the Equity Pledge Agreement, including but not limited to, recovering all payments (including but not limited to dividends) payable under or payable in relation to the Equity Pledge Agreement.

As of the date of this annual report, the pledges by the Relevant Shareholders have been registered with the relevant PRC authorities as required under the relevant PRC laws and regulations.

(d) Intellectual Property Transfer and Licence Agreement

Pursuant to the intellectual property transfer and licence agreement dated 23 February 2019 entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders (the “**Intellectual Property Transfer and Licence Agreement**”), Guangzhou Jiu Zun agreed to irrevocably grant to WFOE the right to purchase, and the exclusive licence to use, the intellectual property rights held by Guangzhou Jiu Zun and the Consolidated Affiliated Entities at nil consideration, and agreed that WFOE shall have the right to assign the right to purchase and the exclusive licence to a third party without the consent of Guangzhou Jiu Zun and the Consolidated Affiliated Entities or the Relevant Shareholders.

Pursuant to the Intellectual Property Transfer and Licence Agreement, unless required by PRC law, Guangzhou Jiu Zun and the Consolidated Affiliated Entities shall enter into an intellectual property transfer agreement (the “**Intellectual Property Transfer Agreement**”) and an exclusive licence for intellectual property use agreement (the “**Exclusive Licence for Intellectual Property Use Agreement**”) within 15 working days after the signing of the Intellectual Property Transfer and Licence Agreement, and submit an application for registration of the intellectual property transfer and the licence for use of intellectual property with the relevant patent or trademark office. The Exclusive Licence for Intellectual Property Use Agreement shall remain effective until the completion of the registration of the intellectual property transfer.

Report of Directors *(Continued)*

Pursuant to the Intellectual Property Transfer and Licence Agreement, with regards to the intellectual property rights that are subject to mandatory transfer restrictions under PRC laws, Guangzhou Jiu Zun and the Consolidated Affiliated Entities shall enter into the Exclusive Licence for Intellectual Property Use Agreement within 15 working days after the signing of the Intellectual Property Transfer and Licence Agreement, and submit an application for registration of the licence for use of intellectual property with the relevant patent or trademark office. The Exclusive Licence for Intellectual Property Use Agreement shall be for a term of 10 years and Guangzhou Jiu Zun and the Consolidated Affiliated Entities shall renew the agreement upon its expiry. Once the mandatory transfer restrictions under PRC laws have been lifted, Guangzhou Jiu Zun and the Consolidated Affiliated Entities shall irrevocably transfer the intellectual property rights to WFOE.

(e) Voting Rights Proxy Agreements and Powers of Attorney

Pursuant to the Voting Rights Proxy Agreement and Powers of Attorney dated 23 February 2019 entered into among the Relevant Shareholders, WFOE and Guangzhou Jiu Zun, the Relevant Shareholders, through the voting rights proxy agreement ("**Voting Rights Proxy Agreement**") and powers of attorney (the "**Powers of Attorney**"), agreed to irrevocably appoint WFOE and its successors (including but not limited to Directors and their successors and liquidators replacing the Directors but excluding those non-independent or who may give rise to conflict of interests) to act as their exclusive agent to exercise the rights of the shareholders of Guangzhou Jiu Zun without giving notice to the Relevant Shareholders or consent of the Relevant Shareholders, and the Relevant Shareholders shall undertake to bear all the liabilities of the exercise of such rights by WFOE or its direct or indirect shareholders, including without limitation:

- (i) the right to propose, convene and attend shareholders' meetings of Guangzhou Jiu Zun;
- (ii) to sell or transfer or pledge or dispose of all or part of the Relevant Shareholders' equity interest in Guangzhou Jiu Zun, to dispose of Guangzhou Jiu Zun's asset rights;
- (iii) the right to exercise shareholders' voting rights in shareholders' meetings;
- (iv) to act as, nominate and appoint the authorized representative, director, supervisor, general manager and other senior management of Guangzhou Jiu Zun;
- (v) the right to sign any transfer documents, minutes or other documents for Guangzhou Jiu Zun to effect the relevant agreements, materials or all other documents;
- (vi) to file documents with the relevant companies registry;
- (vii) the right to process any matters that shareholders are obligated to handle in accordance with relevant laws and/or agreements but failed to do so;
- (viii) to exercise all rights and powers of the pledged shares under the Equity Pledge Agreement;

Report of Directors *(Continued)*

- (ix) to sign all the necessary documents and handle all necessary matters so that WFOE and its successors may fully exercise all or any of the powers as stipulated in the laws of the PRC such as the Company Law, the Articles of Association and/or other agreements (including but not limited to the right to dispose of Guangzhou Jiu Zun's remaining property after liquidation of Guangzhou Jiu Zun in accordance with the law); and
- (x) to rectify and confirm by WFOE any matters that any Relevant Shareholders have implemented or intend to implement according to the Powers of Attorney, except as a result of gross negligence or wilful misconduct.

The Powers of Attorney also provided that, in order to avoid potential conflicts of interest, where the Relevant Shareholders are officers or directors of Guangzhou Jiu Zun or the Company, the powers of attorney will be granted in favor of other unrelated officers or directors of Guangzhou Jiu Zun or the Company.

The Voting Rights Proxy Agreement shall remain effective for a term of 10 years unless extended by WFOE in accordance with the Voting Rights Proxy Agreement. The Powers of Attorney shall remain effective for so long until the Management Services Agreement, Irrevocable Option Agreement, Equity Pledge Agreement and, Intellectual Property Transfer and Licence Agreement and Voting Rights Proxy Agreement have been rescinded or terminated.

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

Set out below are certain key consolidated financial information of Guangzhou Jiu Zun and its subsidiaries as prepared in accordance with the PRC accounting standards for the year ended 31 December 2020:

	For the year ended 31 December 2020
	RMB'000
Revenue	172,264
Net Profit	5,536
Total Assets	149,075

Report of Directors *(Continued)*

Risks relating to the Contractual Arrangements

Risks associated with Contractual Arrangements

Current PRC laws and regulations impose certain restrictions and prohibitions on foreign ownership of companies that engage in mobile game operating, Internet and other related businesses, such as the provision of Internet information. If the PRC government finds that the agreements that establish the structure for operating our mobile game businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.

We may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are important to the operation of our business if Guangzhou Jiu Zun or Family Doctor declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and our Consolidated Affiliated Entities may fail to perform their obligations under our Contractual Arrangements.

We may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are critical to the operation of our business if any of our Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.

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

Mitigation actions taken by the Group

Our Directors have been closely monitoring the latest development of the existing or future applicable PRC laws or regulations (such as Draft Foreign Investment Law), and will take measures to ensure that the Company, including Guangzhou Jiu Zun, are under the control of PRC investors so as to comply with relevant rules and regulations in the PRC.

Pursuant to the relevant irrevocable option agreement under the Contractual Arrangements, Guangzhou Jiu Zun may not be dissolved or liquidated without WFOE's written consent unless required by PRC law.

According to the relevant powers of attorney, share pledge agreements and exclusive business cooperation agreements under the Contractual Arrangements, the arbitration tribunal may decide (i) compensation for the equity interests or property ownership of the PRC Operating Entities or their shareholders, or (ii) enforceable remedy or to demand bankruptcy of the Consolidated Affiliated Entities or their shareholders for relevant business or enforceable asset transfer. Any party is entitled to request a competent court to execute the arbitration award when it comes into effect.

The Contractual Arrangements contain terms that specifically obligate the Relevant Shareholders to ensure the valid existence of our Consolidated Affiliated Entities and that Guangzhou Jiu Zun may not be dissolved or liquidated without WFOE's written consent unless required by PRC law.

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

Report of Directors *(Continued)*

Risks associated with Contractual Arrangements

We will 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.

Changes in the PRC preferential tax policies could lead to an increase in our tax liabilities.

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.

We conduct our business operation in the PRC through our Consolidated Affiliated Entities by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws.

Mitigation actions taken by the Group

WFOE will gradually build up a track record of business operations for the purpose of applying qualifications in order to enjoy the preferential tax treatment.

Pursuant to the PRC Enterprise Income Tax Law, certain subsidiaries of the Group were qualified as “high and new technology enterprise” and were entitled to preferential income tax rates during preferential periods and certain subsidiaries of the Group applied the Small-Scaled Minimal Profit Enterprise Income Tax Preferential Policy announced by the PRC’s State Administration of Taxation as disclosed in note 10 to the Financial Statements. These subsidiaries of the Group will use reasonable endeavours to take all necessary actions to maintain their qualification status in order to continue to enjoy the preferential tax treatment.

The Relevant Shareholders have undertaken to Guangzhou Jiu Zun and WFOE, respectively, that during the period when the Contractual Arrangements remain effective, (i) unless otherwise agreed by Guangzhou Jiu Zun or WFOE in writing, the relevant shareholder would not, directly or indirectly (either on his own account or through any natural person or legal entity) participate, be interested in, engage in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may potentially be in competition with the businesses of the PRC Operational Entities or any of its affiliates and (ii) any of his actions or omissions would not lead to any conflict of interest between him and Guangzhou Jiu Zun and WFOE (including but not limited to its shareholders). Furthermore, in the event of the occurrence of a conflict of interest where Guangzhou Jiu Zun or WFOE has the sole absolute discretion to determine whether such conflict arises, he agrees to take any appropriate actions as instructed by Guangzhou Jiu Zun or WFOE.

According to the Contractual Arrangements, the arbitration tribunal may decide compensation for the equity interests or property ownership of Chinese business entities or their shareholders, decide enforceable remedy or demand a bankruptcy on Chinese business entities or their shareholders for relevant business or enforceable asset transfer. Any party is entitled to request the competent court to execute the arbitration award when it comes into effect.

Report of Directors *(Continued)*

Risks associated with Contractual Arrangements

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

Mitigation actions taken by the Group

Our Directors have been closely monitoring the latest development of the existing or future applicable PRC laws or regulations (such as Draft Foreign Investment Law), and will take measures to ensure that the Company, including Guangzhou Jiu Zun, are under the control of PRC investors so as to comply with relevant rules and regulations in the PRC.

For further details of these risks, please refer to the section headed “Risk Factors — Risks Related to Our Contractual Arrangements” of the Prospectus.

Compliance with the Contractual Arrangements

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

1. Major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
2. Our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
3. Our Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports and interim reports to update the Shareholders and potential investors;
4. Our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and the Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions for our Company pursuant to Chapter 14A of the Listing Rules. As such, we have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of (i) the announcement, circular and independent shareholders’ approval in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) setting annual caps for the transactions contemplated under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, subject to the following conditions:

- (1) No changes without Independent Non-executive Directors’ approval.
- (2) No changes without independent Shareholders’ approval.

Report of Directors *(Continued)*

- (3) The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through: (1) our Group's option (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in Guangzhou Jiu Zun for nominal consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations; (2) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to WFOE under the Management Services Agreement; and (3) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of Guangzhou Jiu Zun.
- (4) The Contractual Arrangements framework may be renewed and/or adopted upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company engaging in the same business which our Group might wish to establish, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executives or substantial shareholders of these entities will, upon renewal and/or adoption of the Contractual Arrangements, be treated as the connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.
- (5) we will disclose details relating to the Contractual Arrangements on an ongoing basis.

Annual Review by our Independent Non-Executive Directors and Auditor

Our Independent Non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

- (a) The transactions carried out during the year ended 31 December 2020 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;
- (b) No dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
- (c) Other than the Contractual Arrangements, no new contracts had been entered into, renewed and/or reproduced between our Group and the Consolidated Affiliated Entities during the year ended 31 December 2020; and
- (d) The Contractual Arrangements had been entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable so far as our Group is concerned, and in the interest of our Company and its Shareholders as a whole.

Our Auditor has confirmed in a letter to our Board that the transactions under the Contractual Arrangements have been approved by our Board, the transactions carried out during the year ended 31 December 2020 had been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that no dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director or his connected entities had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its parent company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2020 and up to the date of this report.

Report of Directors *(Continued)*

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2020.

SHARE OPTION SCHEME

The following is the summary of the principal terms of the share option scheme (the “**Share Option Scheme**”) effective from 21 February 2020.

1. *Purpose:*

The purpose of the Share Option Scheme enables our Company to grant Options to the Eligible Persons as incentives or rewards for their contributions to our Company.

2. *Participants:*

The Board may, as its discretion, offer any Eligible Persons to take up Options.

3. *Maximum number of shares:*

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme must not aggregate exceed 10% of the total number of Shares in issue on the Listing Date (i.e. a total of 54,600,000 Shares representing 10% of the issued share capital of the Company as at the date of this annual report).

4. *Maximum entitlement of each Eligible Person:*

The total number of Shares issued and to be issued upon exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of share options in excess of this limit is subject to shareholders’ approval in general meeting.

5. *Grant of options to connected persons:*

Any grant options to a substantial shareholder or any independent non-executive Director or their respective associates which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange at the date of each grant, such further grant of options shall be approved by our Shareholders in general meeting. The proposed grantee, his associates and all our core connected persons shall abstain from voting in favour at such general meeting.

Report of Directors *(Continued)*

6. *Time of exercise of option and duration of the Share Option Scheme:*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the Listing Date. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of ten years from the Listing Date.

7. *Price for Shares:*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2020, the Company decided not to rely on any single customer and not to identify the five largest customers of our Group.

No revenues from the Group's transaction with a single customer amounted to 10% or more of the Group's revenues for the year ended 31 December 2020.

During the year ended 31 December 2020, the percentage of the aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 59.5% and 89.2% of the Group's cost of revenue, respectively.

None of the Directors or any of their close associates (as defined in the Listing Rules) 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 game licensors, publishing partners and suppliers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Company will publish the "Environmental, Social and Governance Report" within three months after the publication of the report under the requirement of Appendix 27 of the Hong Kong Listing Rules.

Report of Directors *(Continued)*

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. Save as disclosed in the Corporate Governance Report under this annual report in relation to the deviations from code provision A.2.1 of the CG Code, the Company has complied with the code provisions in the CG Code throughout the year ended 31 December 2020.

PERMITTED INDEMNITY PROVISION

The Articles provide that every Director shall be indemnified out of the assets and profits of the Company against all liability and loss suffered by him as such Director in any action, suit or proceeding, whether civil or criminal, administrative or investigative, in which judgment is given in his favour, or in which he is acquitted.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the directors of any company of the Group.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Schemes as disclosed in this annual report, no equity-linked agreement was entered into during the year ended 31 December 2020 or subsisted at the end of the year of 2020.

AUDITORS

The consolidated financial statements for the year ended 31 December 2020 have been audited by Ernst & Young, certified public accountants.

A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

LU Jian

Chairman

Hong Kong, 30 March 2021

Management Discussion and Analysis

REVIEW OF OPERATION

Jiu Zun Digital Interactive Entertainment Group Holdings Limited is a digital entertainment content provider in the PRC with a diversified content portfolio comprising (i) mobile games mainly played on android operating system; (ii) e-magazines; and (iii) other digital media content such as comics and music. We commenced our digital media content distribution business in 2011, and expanded our product offerings to mobile games in 2014 when we first began to develop and/or operate a wide range of casual mobile games. Apart from casual mobile games which we focused primarily before 2017, we also commenced development and operation of boutique mobile games since 2017 and launched our first multi-player mobile game in January 2019. Since 2018, we have also cooperated with corporate customers who make use of the in-game airtime provided by us for placing their media content for advertising purpose. For the year ended 31 December 2020, majority of our revenue was derived from the sale of virtual items in our multi-player mobile games.

The Group's revenue decreased by approximately RMB49.0 million or 22.4% from approximately RMB219.2 million for the year ended 31 December 2019 to approximately RMB170.2 million for the year ended 31 December 2020. The decrease of the Group's revenue is mainly due to the decrease in revenue from our mobile game development and operation business by approximately RMB36.8 million and the decrease in revenue from digital media content distribution business of approximately RMB10.1 million. The gross profit also decreased by approximately RMB24.0 million or 30.1% from approximately RMB79.6 million for the year ended 31 December 2019 to approximately RMB55.6 million for the year ended 31 December 2020 which was principally due to the substantial decline of approximately 83.3% in revenue attributable to the single-player mobile games in FY2020 as compared to the same period of FY2019, which was principally due to the unexpected impacts against the Group in the second quarter of FY2020 after the Listing caused by the COVID-19 epidemic and the subsequent quarantine measures imposed by the PRC government, including, among others: (i) change of player preference from the single-player mobile games (of which the Group historically and primarily relied on in its financial performance) to multi-player mobile games during FY2020; and (ii) an unexpected increase in level of competition intensity resulting in the top-set places in the distribution platforms were mostly occupied by the games operated by the major game operators. Although the revenue from the development and operation of the multi-player mobile games increased by approximately 103.8% as compared to the revenue of the same business line of approximately RMB64.8 million for the year ended 31 December 2019, the decline of revenue attributable to the single-player mobile games outweighed the promising performance of the multi-player mobile games, the Group invariably recorded a decline in the Group's overall revenue and its financial results.

The profit for the year decreased by approximately RMB40.2 million or 97.5% from approximately RMB41.2 million for the year ended 31 December 2019 to approximately RMB1.0 million for the year ended 31 December 2020. The decrease was primarily due to (i) the decrease in the gross profit generated from mobile games of approximately RMB18.4 million and gross profit generated from the digital media content distribution of approximately RMB5.4 million; (ii) the increase in the administrative expenses of approximately RMB10.6 million; (iii) the increase in the research and development expenses of approximately RMB6.1 million and (iv) the increase in the listing expenses of approximately RMB4.0 million which were net off by the decrease in the income tax expense of approximately RMB9.5 million. Excluding the listing expenses, the adjusted profit for the year decreased by approximately RMB36.3 million or 72.1% from approximately RMB50.3 million for the year ended 31 December 2019 to approximately RMB14.0 million for the year ended 31 December 2020. The net profit margin decreased from approximately 18.8% for the year ended 31 December 2019 to approximately 0.6% for the year ended 31 December 2020.

Management Discussion and Analysis *(Continued)*

OUTLOOK

An outbreak of COVID-19 in early 2020 has led to a major challenge for the global economy. Under the effective control measures of the PRC government, the epidemic has generally been under control. Based on the current situation of the COVID-19, our mobile games can continue to be downloaded and played by players and digital media content can continue to be subscribed with all settlement services continued. We are also able to continue our cooperation with our suppliers and business partners through electronic media and telephone and remote access to our information technology system. However, since the second half of 2020, the onset of waves of the pandemic has once again cast a shadow over the prospects of the global economy and enhanced the market competition intensity in FY2020.

Looking forward to future, the internal and external situations will remain complicated and tough. Adopting the long-term perspective, the Group will actively seek opportunities for business upgrades and expansions while continuing to increase our investment in research and development, distribution and operation talents of games, building a diversified and innovative product portfolio and strengthening our competitiveness in an environment where the global digitization continues to deepen and the next generation information technology continues to upgrade. By integrating internal and external resources to explore and innovate, the Group will continue to introduce new dynamics into the Group's long-term development.

PROSPECTS

In 2021, the Company will continue to switch its focus from single-player mobile games development and operation business to multi-player mobile games development and operation business due to the unexpected change of player preference from single-player mobile games to multi-player mobile games since the second quarter of the year ended 2020. During 2020, the Company launched eight multi-player mobile games and four single-player mobile games. With the shift of focus of the Group to multi-player mobile game development and operation business, majority of the Group's revenue is expected to be derived from multi-player mobile game development and operation business in the future.

FINANCIAL REVIEW

Mobile Game

The mobile game consists of development and operation of mobile games and information services where the Group cooperated with corporate customers to integrate media content in some of the mobile games the Group operate.

The following table sets forth certain operating statistics relating to the mobile game of the Group in the periods indicated:

	Year ended 31 December		
	2020	2019	Change %
Game			
Number of paying players (in million)	1.9	11.9	-84.0
Average MPUs (in million)	0.2	1.0	-80.0
Average ARPPU (RMB)	86.36	22.89	277.3

Management Discussion and Analysis *(Continued)*

- MPUs. The average monthly paying users (“MPUs”) for the game business decreased to approximately 0.2 million for the year ended 31 December 2020 from approximately 1.0 million for the year ended 31 December 2019. The decrease was primarily due to the unexpected change of player preference from single-player mobile games to multi-player mobile games in FY2020. The number of paying players from single player mobile games decreased in FY2020.
- ARPPU. Average revenue per paying user (“ARPPU”) level of game business increased to approximately RMB86.36 for the year ended 31 December 2020 as compared to RMB22.89 for the year ended 31 December 2019. The increase was primarily attributable to the fact that larger proportion of revenue from mobile game is generated by multi-player mobile game for the year ended 31 December 2020, which offered virtual items at a relatively high unit purchase price.

The following table sets forth the Group’s consolidated statement of profit or loss for the year ended 31 December 2020 as compared to the year ended 31 December 2019:

	Year ended 31 December		
	2020 RMB’000	2019 RMB’000	Change %
Revenue	170,179	219,194	-22.4
Cost of sales	(114,541)	(139,622)	-18.0
Gross profit	55,638	79,572	-30.1
Other income and gains, net	4,497	2,409	86.7
Selling and distribution expenses	(1,258)	(861)	46.1
Administrative expenses	(18,650)	(8,067)	131.2
Research and development expenses	(14,012)	(7,934)	76.6
Reversal of impairment/(impairment) of trade receivables	(1,045)	706	-248.0
Other expenses	(19,406)	(9,711)	99.8
Finance costs	(150)	(1,039)	-85.6
Share of results of associates	(193)	-	-
Profit before tax	5,421	55,075	-90.2
Income tax expense	(4,398)	(13,867)	-68.3
Profit for the year	1,023	41,208	-97.5

Management Discussion and Analysis *(Continued)*

Revenue

Revenue decreased by approximately RMB49.0 million or 22.4% to approximately RMB170.2 million for the year ended 31 December 2020 from approximately RMB219.2 million for the year ended 31 December 2019. The following table sets forth the revenue of the Group by business segment for the years ended 31 December 2019 and 2020:

	Year ended 31 December			
	2020		2019	
	RMB'000	% to total revenue	RMB'000	% to total revenue
<i>Revenue from contracts with customers</i>				
Mobile games				
– Development and operation	152,740	89.7	189,499	86.5
– Information services	108	0.1	2,310	1.0
Digital media content distribution	17,331	10.2	27,385	12.5
Total Revenue from contracts with customers	170,179	100.0	219,194	100.0

- Revenue generated from the Group's mobile games decreased by approximately RMB39.0 million or 20.3% to approximately RMB152.8 million for the year ended 31 December 2020 from approximately RMB191.8 million for the year ended 31 December 2019. Such decrease was primarily due to the substantial decline of approximately 83.3% in revenue attributable to the single-player mobile games in FY2020 as compared to the same period of FY2019, which was principally due to the unexpected impacts against the Group in FY2020 after the Listing caused by the COVID-19 epidemic and the subsequent quarantine measures imposed by the PRC government, including, among others: (i) change of player preference from the single-player mobile games (of which the Group historically and primarily relied on in its financial performance) to multi-player mobile games during FY2020; and (ii) an unexpected increase in level of competition intensity during FY2020 resulting in the top-set places in the distribution platforms were mostly occupied by the games operated by the major game operators. Although the revenue from the development and operation of the multi-player mobile games increased by approximately 103.8% as compared to the revenue of the same business line of approximately RMB64.8 million for year ended 31 December 2019, the decline of revenue attributable to the single-player mobile games outweighed the promising performance of the multi-player mobile games, the Group invariably recorded a decline in the Group's overall revenue from mobile games.
- Revenue generated from the Group's digital media content distribution decreased by approximately RMB10.1 million or 36.7% to approximately RMB17.3 million for the year ended 31 December 2020 from approximately RMB27.4 million for the year ended 31 December 2019. Such decrease was primarily due to the decrease in subscribers resulting from the temporary halt of services of the Group's major distribution platform for the upgrade of the user interface during the year ended 31 December 2020.

Management Discussion and Analysis *(Continued)*

Cost of sales

Cost of sales decreased by approximately RMB25.1 million or 18.0% to approximately RMB114.5 million for the year ended 31 December 2020 from approximately RMB139.6 million for the year ended 31 December 2019. The decrease was mainly due to the decrease in service fee charged by the Group's distribution channel providers in line with the decrease in revenue. For the year ended 2020, the percentage of cost of sales to total revenue increased to approximately 67.3% (for the year ended 31 December 2019: approximately 63.7%) mainly due to lower gross profit margin of multi-player mobile games than the single-player mobile games.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB0.4 million or 46.1% to approximately RMB1.3 million for the year ended 31 December 2020 from approximately RMB0.9 million for the year ended 31 December 2019. The increase was mainly due to increase in staff cost and welfare for the year ended 31 December 2020.

Administrative expenses

Administrative expenses increased by approximately RMB10.6 million or 131.2% to approximately RMB18.7 million for the year ended 31 December 2020 from approximately RMB8.1 million for the year ended 31 December 2019. The increase in administrative expenses was mainly attributable to the increase in the post-listing expenses of approximately RMB5.6 million and the increase in the staff cost and welfare of approximately RMB1.5 million for the year ended 31 December 2020.

Research and development expenses

Research and development expenses increased by approximately RMB6.1 million or 76.6% to approximately RMB14.0 million for the year ended 31 December 2020 from approximately RMB7.9 million for the year ended 31 December 2019. The increase was primarily due to the fact that the Company increased investment on the development of multi-player mobile games in FY2020.

Other income and gains, net

Other income and gains, net increased to approximately RMB4.5 million for the year ended 31 December 2020 from approximately RMB2.4 million for the year ended 31 December 2019, which was mainly attributable to the gain on write-back of an other payable of approximately RMB1.2 million and the increase in the government grants of approximately RMB1.0 million.

Reversal of impairment/(impairment) of trade receivables

Impairment of trade receivables was approximately RMB1.0 million for the year ended 31 December 2020, as compared to reversal of impairment of trade receivables of approximately RMB0.7 million for the year ended 31 December 2019.

Other expenses

Other expenses for the year ended 31 December 2020 was RMB19.4 million, as compared to other expenses of RMB9.7 million for the year ended 31 December 2019. The increase was mainly due to the increase in listing expenses for the year ended 31 December 2020.

Management Discussion and Analysis *(Continued)*

Finance costs

Finance costs for the year ended 31 December 2020 was approximately RMB0.2 million (2019: approximately RMB1.0 million), which was primarily in relation to the issuance of pre-IPO convertible bonds during the year ended 2018.

Income tax expense

The Group recognised income tax expense of approximately RMB4.4 million for the year ended 31 December 2020 while the income tax expense was approximately RMB13.9 million for the year ended 31 December 2019. The effective tax rate increased from approximately 25.2% for the year ended 31 December 2019 to 81.1% for the year ended 31 December 2020 mainly due to (i) the increase in listing expenses of approximately RMB4.0 million for the year ended 31 December 2020, which was non-deductible for tax purposes; and (ii) the impact of 10% withholding tax levied on a portion of the retained earnings of our Group's PRC subsidiaries distributable to foreign investment enterprises upon the set up of Contractual Arrangements of our Group in February 2019 (i.e. our "PRC Withholding Tax"). Excluding the listing expenses and the impact of the PRC Withholding Tax, our effective tax rate would be approximately 19.6% for the year ended 31 December 2020.

Profit for the year

The profit for the year ended 31 December 2020 was approximately RMB1.0 million, as compared to the profit of approximately RMB41.2 million for the year ended 31 December 2019. The net profit margin decreased from approximately 18.8% for the year ended 31 December 2019 to approximately 0.6% for the year ended 31 December 2020 mainly due to (i) increase in listing expenses of approximately RMB4.0 million for the year ended 31 December 2020; (ii) increase in administrative expenses of approximately RMB10.6 million; (iii) increase in research and development expenses of approximately RMB6.1 million for the year ended 31 December 2020; and (iv) decrease in gross profit margin as discussed above.

Adjusted profit for the year

Excluding the listing expenses, the adjusted profit for the year ended 31 December 2020 was approximately RMB14.0 million, which decreased by approximately RMB36.3 million or 72.1% as compared to the adjusted profit of approximately RMB50.3 million for the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Cash and cash equivalents	47,156	50,899

The Group's total cash and cash equivalent amounted to approximately RMB47.2 million as at 31 December 2020, as compared to approximately RMB50.9 million as at 31 December 2019. The cash and cash equivalents remain relatively stable.

We currently do not hedge transactions undertaken in foreign currencies. Due to our persistent efforts in managing our exposure to foreign currencies through constant monitoring to limit as much as possible the amount of foreign currencies held by us, fluctuations in currency exchange rates do not have any material adverse impact on our financial results.

Management Discussion and Analysis *(Continued)*

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the costs of fundings, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in Renminbi ("RMB"), followed by Hong Kong dollars ("HKD").

The Group did not have any bank borrowing balance as at 31 December 2020 and 2019. As at 31 December 2020, the Group's gearing ratio (calculated as bank borrowing divided by total assets) was nil (2019: nil). The borrowing requirements of the Group are not subject to seasonality.

MATERIAL ACQUISITION AND DISPOSAL

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for material investments or additions of capital assets during the year ended 31 December 2020.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Save as disclosed in this annual report, there were no other significant investments (being investment in companies with a value of 5% of the Group's total asset as of 31 December 2020) held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for other material investments or additions of capital assets during the year ended 31 December 2020.

CHARGES ON GROUP ASSETS

As at 31 December 2020, the Group did not have any other banking charges.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant unrecorded contingent liabilities.

HUMAN RESOURCES AND EMPLOYMENT POLICY

As at 31 December 2020, the Group had a total of 51 employees, the majority of whom are based in Guangzhou. Total staff costs were approximately RMB11.6 million for the year ended 31 December 2020. The Group provides employees with competitive remuneration and various benefits including housing, pension, medical and unemployment benefit plan, and the Group's remuneration policies are formulated according to the assessment of individual performance and are periodically reviewed. The Group provide customized and continuous on-the-job training to our new employees by experienced mentors from relevant teams or departments.

EVENT AFTER THE REPORTING PERIOD

The Group did not have any significant events after 31 December 2020 and up to the date of this Annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Although the Group has successfully established its mobile games, there are certain risks that could adversely affect the Group's operations and financial results due to the immaturity of the mobile game industry in PRC. The major hurdles include (i) new policies or any amendment to current policies in relation to mobile game industry, (ii) reliance on distribution channel providers, (iii) the game portfolio included games that are self-developed or licensed games, so the Group's operations may be adversely affected if the Group cannot seek alternatives in a timely manner; (iv) the Group may be exposed to payment delays or defaults from settlement agents, which would adversely affect the Group's cash flow financial results.

Meanwhile, for the Group's established digital media content, the major hurdles include external interruptions such as system disruption, hacking or service suspension on any of the distribution platforms or the publishing platform.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2020.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the code provisions as set out in the CG Code.

Save as disclosed in this Corporate Governance Report in relation to the deviations from code provision A.2.1 of the CG Code, the Directors consider that the Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2020.

A. The Board

1. *Roles and Responsibilities of the Board*

The Board is responsible for the leadership and control of the Group and is responsible for promoting the success of the Group by directing and supervising its affairs. The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference which are published on the websites of the Stock Exchange and the Company.

While specific functions are delegated to Board committees, matters which have a critical bearing on the Group are reserved for decision or consideration by the Board, including:

- approval and monitoring of all major policies of the Group;
- overall strategies and budgets;
- internal control and risk management systems;
- notifiable and connected transactions;
- nomination of directors and company secretary; and
- other significant financial and operational matters.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation. Upon reasonable request, all Directors can seek independent professional advice in appropriate circumstances, at the Company's expense.

Corporate Governance Report *(Continued)*

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

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

2. Delegation of Management Function

The day-to-day management, administration and operation of the Group are delegated to the senior management of the Group. The responsibilities delegated by the Board to the senior management include:

- execution of overall strategies adopted by the Board;
- monitoring of budgets adopted by the Board;
- implementation of internal control and risk management systems; and
- preparation of the annual and interim reports and the results announcements for Board approval. The delegated functions are periodically reviewed. Authorisation has to be obtained from the Board prior to any significant transactions entered into by the senior management.

3. Board Composition

As at the date of this report, the Board consisted of seven Directors, two of whom were Executive Directors, two of whom was a Non-executive Director and three of whom were Independent Non-executive Directors.

During the year ended 31 December 2020 and up to the date of this report, the Board comprised the following Directors:

Executive Directors	Mr. LU Jian (<i>Chairman</i>) Mr. LIANG Junhua
Non-executive Directors	Ms. SU Shaoping Mr. TSUI Wing Tak
Independent Non-executive Directors	Mr. ZHAO Junfeng Mr. ZHUANG Wensheng Ms. SONG Yi

Biographies of the Directors are set out on pages 54 to 61 of this annual report.

Corporate Governance Report *(Continued)*

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to 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 Stock Exchange's website an updated list of all Directors identifying their role and function and whether they are Independent Non-executive Directors.

Save as disclosed in the Prospectus and in this annual report, to the best knowledge of the Company, there are no financial, business, family, or other material relationships among members of the Board.

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 and at least one Independent Non-executive Director possesses appropriate professional qualifications, or accounting or related financial management expertise.

Prior to their respective appointment, each of the Independent Non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received written annual confirmation from each of the Independent Non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence requirements set out in the Listing Rules.

4. Appointment and re-election of directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

For details of the service contracts of the Directors, please refer to the section headed "Report of Directors — Directors' Service Contracts" in this annual report.

In accordance with the Articles, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Corporate Governance Report *(Continued)*

5. *Induction and Continuing Development for Directors*

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Directors are continually provided with information related to the developments in the legal and regulatory regime and the business and market environments to facilitate the execution of their responsibilities.

The records of training as received by each Director for the year ended 31 December 2020 are summarized as follows:

	Types of trainings
Executive Directors	
Mr. Lu Jian	A
Mr. Liang Junhua	A
Non-executive Directors	
Ms. Su Shaoping	A
Mr. Tsui Wing Tak	A
Independent Non-executive Directors	
Mr. Zhao Junfeng	A
Mr. Zhuang Wensheng	A
Ms. Song Yi	A

A: reading materials relating to general business, regulatory updates on listing rules and board practices

6. *Directors liability insurance*

The Company has always been in strict compliance with the principles and requirements of the Listing Rules. As at 31 December 2020, the Company was not involved in any material litigation liable by any Director. Each Director has the necessary qualification and experience required for performing his duty. The Company estimates that in the reasonably foreseeable future, there is little risk that there would be any material event for which any Director shall take significant responsibility. Notwithstanding the above, the Company has arranged for appropriate directors' and officers' liability insurance in respect of legal action against the Directors.

Corporate Governance Report *(Continued)*

7. **Board Meetings and General Meetings**

Number of Meetings and Directors' Attendance

Code provision A.1.1 of the CG Code prescribes that at least four regular Board meetings should be held each year at approximately quarterly intervals with active participation of a majority of Directors, either in person or through electronic means of communication.

The Board held five meeting during the period commencing from the Listing Date to the date of this annual report. The table below sets forth the details of the attendance at this meeting:

Name of Director	Attendance Board meetings
Mr. LU Jian (<i>Chairman</i>)	5/5
Mr. LIANG Junhua	5/5
Ms. SU Shaoping	5/5
Mr. TSUI Wing Tak	5/5
Mr. ZHAO Junfeng	5/5
Mr. ZHUANG Wensheng	5/5
Ms. SONG Yi	5/5

Practices and Conduct of Meetings

The annual meeting schedule and draft agendas of each meeting are made available to Directors in advance. Arrangements are also in place to ensure Directors are given an opportunity to include matters in the agenda.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or committee 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 whenever necessary.

Members of the senior management attend all regular Board meetings and where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Group.

The company secretary of the Company is responsible for taking and keeping minutes of all Board meetings and committee meetings, which record sufficient details of the matters considered by the Directors and decisions made, including any proposal raised by the Directors or dissenting views expressed. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

Corporate Governance Report *(Continued)*

The Articles contain provisions requiring 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 associates have a material interest.

B. Chairman and Chief Executive

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. LU Jian serves as the Chairman of the Board and the Chief Executive Officer of the Company. In view of the ever-changing business environment in which the Group operates, the Chairman and Chief Executive Officer of the Company must be proficient in IT knowledge and be sensitive to fast and rapid market changes, including changes in users' preferences, in order to promote the different businesses of the Group. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. Further, the Board considers that a separation of the roles of the Chairman and Chief Executive Officer may create unnecessary costs for the daily operations of the Group. Besides, all major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team.

The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to monitor and review the Company's current structure and to make necessary changes at an appropriate time.

C. Board Committees

The Board has established three Board committees, namely, the Remuneration Committee, the Audit Committee and the Nomination Committee, for overseeing particular aspects of the Group's affairs. All of these three Board committees of the Company are established with defined written terms of reference.

The majority of the members of the Remuneration Committee, the Audit Committee and the Nomination Committee are Independent Non-executive Directors.

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.

1. Remuneration Committee

We have established the Remuneration Committee with written terms of reference in compliance with Rule 3.26 of the Listing Rules and paragraph B.1 of the CG Code. During the year ended 31 December 2020, the Remuneration Committee comprised three members, of whom all of them were Independent Non-executive Directors:

Mr. ZHUANG Wensheng (*Chairman*)

Mr. ZHAO Junfeng

Ms. SONG Yi

Corporate Governance Report *(Continued)*

The primary roles and functions of the Remuneration Committee include, but not limited to: (i) making recommendations to the Directors on the remuneration policy of the Group and structure of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration, (ii) reviewing and approving the senior management's remuneration proposals with reference to the Board's corporate goals and objectives and ensuring that it is consistent with contractual terms and are reasonable and appropriate, and (iii) determining the terms of the remuneration package of the Directors and senior management with reference to their time commitment and responsibilities, employment condition in the Group, and comparable companies.

The Remuneration Committee held two meetings during the period under review as the shares of the Company were only listed on the Stock Exchange on the Listing Date. During the period commencing from the Listing Date to the date of this annual report, one Remuneration Committee meeting was held. In the meeting, the Remuneration Committee considered and recommended to the Board the remuneration package of the individual Executive Directors and senior management as well as the remuneration of the Non-executive Directors and fulfilled duties as aforesaid required. The table below sets forth the details of the attendance at this meeting:

Committee members	Meeting attended/Total
Mr. ZHUANG Wensheng (<i>Chairman</i>)	2/2
Mr. ZHAO Junfeng	2/2
Ms. SONG Yi	2/2

2. Audit Committee

We have established the Audit Committee with written terms of reference in compliance with Rule 3.22 of the Listing Rules and paragraph C.3 of the CG Code. During the year ended 31 December 2020, the Audit Committee comprised three members, all of them were Independent Non-executive Directors:

Mr. ZHAO Junfeng (*Chairman*)
Mr. ZHUANG Wensheng
Ms. SONG Yi

The chairman of the Audit Committee, Mr. ZHAO Junfeng, holds the appropriate professional qualifications as required under Rules 3.22 of the Listing Rules and paragraph C3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

The primary roles and functions of the Audit Committee include, but not limited to:

(i) making recommendations to our Board on the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (ii) monitoring the integrity of our financial statements, our accounts, our annual report and our interim report, and reviewing significant financial reporting judgments contained therein; and (iii) reviewing our financial control, internal control, internal audit function and risk management systems.

Corporate Governance Report *(Continued)*

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to risk management and internal control systems and financial reporting function with the management. The Audit Committee considers that the annual financial results for the year ended 31 December 2020 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

The Audit Committee held two meetings during the period under review as the shares of the Company were only listed on the Stock Exchange on the Listing Date. During the period commencing from the Listing Date to the date of this annual report, one Audit Committee meetings were held. In the meetings, the Audit Committee reviewed the audit plan, reviewed the annual financial results and report as well as the audit report prepared by the external auditor relating to accounting issues and major findings in course of audit, reviewed major internal audit issues, compliance procedures, internal control and risk management systems and processes, recommended re-appointment of external auditors and relevant scope of works and continuing connected transactions, ensured the Company's corporate governance function and fulfilled duties as aforesaid required. From the perspective of the Company's corporate governance, the Audit Committee also reviewed the compliance of the Model Code and Employees Written Guidelines and the Company's compliance with the Listing Rules and disclosure in this Corporate Governance Report. The table below sets forth the details of the attendance at these meetings:

Committee members	Meeting attended/Total
Mr. ZHAO Junfeng (<i>Chairman</i>)	2/2
Mr. ZHUANG Wensheng	2/2
Ms. SONG Yi	2/2

The Group's annual results for the year ended 31 December 2020 and this Corporate Governance Report have been reviewed by the Audit Committee.

3. Nomination Committee

We have established the Nomination Committee with written terms of reference in compliance with paragraph A.5 of the CG Code. During the year ended 31 December 2020, the Nomination Committee comprised three members, of whom two were Independent Non-executive Directors and one was Executive Director:

Mr. LU Jian (*Chairman*)
Mr. ZHAO Junfeng
Mr. ZHUANG Wensheng

The duties of our Nomination Committee include, without limitation, (i) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (ii) identifying individuals suitably qualified to become members of our Board and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; (iii) assessing the independence of our Independent Non-executive Directors; and (iv) making recommendations to our Board on the appointment or re-appointment of our Directors and succession planning for our Directors, in particular the Chairman and the Chief Executive Officer.

Corporate Governance Report *(Continued)*

The Nomination Committee held 3 meetings during the period under review as the shares of the Company were listed on the Listing Date. During the period commencing from the Listing Date to the date of this annual report, one Nomination Committee meeting was held. In the meeting, the Nomination Committee reviewed the structure, size, composition and diversity of the Board, reviewed the board diversity policy, as well as assessed the independence of Independent Non-executive Directors, made recommendation to the Board on the re-election of the retiring Directors and fulfilled duties as aforesaid required. The table below sets forth the details of the attendance at this meeting:

Committee members	Meeting attended/Total
Mr. LU Jian (<i>Chairman</i>)	3/3
Mr. ZHAO Junfeng	3/3
Mr. ZHUANG Wensheng	3/3

Where vacancies on the Board arise, the Nomination Committee will carry out the selection process in accordance with the Company's policy for the nomination of Directors (the "**Nomination Policy**") and the Board diversity policy of the Company (the "**Board Diversity Policy**") by making reference to a range of diversity perspectives.

Summary of the Board Diversity Policy

The Board Diversity Policy was adopted by the Company pursuant to Board resolutions. The Board Diversity Policy aims to set out the approach to diversity on the Board of the Company. The Board Diversity Policy applies to the Board but not to diversity in relation to the employees of the Company, nor the board or the employees of any subsidiary of the Company. In reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, industry and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure the effectiveness of the Board Diversity Policy and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval. The Company aims to maintain an appropriate balance of diversity perspectives of the Board in supporting the attainment of its strategic objectives and its sustainable development. The Board has not set any measurable objectives for implementing the Board Diversity Policy.

Corporate Governance Report *(Continued)*

The Nomination Policy

The Nomination Policy was adopted by the Company pursuant to Board resolutions. The Nomination Committee will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval. The Nomination Policy is set out as below:

1. Objective

This policy sets out the criteria and procedures to be adopted when considering candidates to be appointed or re-elected as directors of the Company.

2. Selection Criteria

The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate.

- Reputation for integrity;
- Accomplishment and experience in the financial services industry, in particular, in the securities, commodities and futures markets;
- Commitment in respect of available time and relevant interest;
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirement for the Board to have Independent Non-executive Directors in accordance with the Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules; and
- These factors are for reference only, and not meant to be exhaustive and decisive.

The Nomination Policy also sets out the procedure for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2020, there was no change in the composition of Board. The Nomination Committee will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy. The Nomination Committee will discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

Corporate Governance Report *(Continued)*

D. Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Listing Rules. The Chairman of the Audit Committee is the person to be notified for securities dealings by Directors and a designated form is used for notification and acknowledgement purpose.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction since 17 March 2020 (Listing date) up to the date of this report and there was no event of non-compliance.

Senior management of the Company is also required to comply with the guidelines on similar terms as set out in the Model Code.

E. Directors' Responsibilities for Financial Reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Group and the Company for the year ended 31 December 2020.

The Board is responsible for providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of our Group, overseeing audit process and performing other duties.

The senior management has provided such explanation and information to the Board as are necessary to enable the Board to carry out an informed assessment of the financial information and position of the Group.

F. External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the Financial Statements is set out in the "Independent Auditor's Report" from pages 64 to 66 of this annual report.

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

For the year ended 31 December 2020, the fees paid/payable to Ernst & Young for audit services and non-audit services were RMB1.4 million and RMB0.1 million, respectively.

Corporate Governance Report *(Continued)*

G. Risk Management and Internal Control

The Board acknowledges its responsibility in maintaining a sound and effective system of internal control for the Group to safeguard interests of the shareholders and assets of the Company at all times.

The Group's system of internal control which includes a defined management structure with limit of authority is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for external publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in the operational systems and achievement of the Group's objectives.

Under Code Provision C.2.5, the Group should have an internal audit function. The Group conducted an annual review on the need for setting up an internal department. Given the Group's operating structure it is decided that the Board would directly responsible for risk management and internal control systems of the Group. The Board through the Audit Committee had conducted an annual review on the risk management and internal control systems of the Group. The review covered material controls, including financial, operational and compliance controls and risk management functions of the Group. Appropriate measures have been put in place to management the risks. No major issues were raised for improvement. The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthen the Group's control environment and processed.

The Company recognises that the release of inside information to place anyone in a privileged dealing position is strictly prohibited. Prior to the announcement of the inside information, all directors and senior management are requested to take all reasonable steps to maintain strict confidentiality and where it is reasonably likely that confidentiality may have been lost in respect of the inside information, the Company shall as soon as reasonably practicable, apply to the Stock Exchange for a trading suspension of its shares.

H. Framework for Disclosure of Inside Information

The Group has put in place a robust framework for the disclosure of inside information in compliance with the Securities and Futures Ordinance. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the stakeholders to apprehend the latest position of the Group. Under the procedures, any employee (especially the Directors, the senior management and unit heads, etc.) who is aware of any potential inside information event shall initiate the reporting procedures as soon as practicable. The Board determines the nature of the events and makes disclosure if required. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

Corporate Governance Report *(Continued)*

I. Communications with Shareholders and Investors

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

The general meetings of the Company are expected to provide a forum for communication between the Board and the Shareholders. The Chairman of the Board, the chairman of each of the Remuneration Committee, Audit Committee and Nomination Committee, or, in their absence, other members of the respective committees are available to answer questions at the general meetings.

Votes of the shareholders at general meeting will be taken by poll in accordance with the Listing Rules. Detailed procedures for conducting a poll will be explained to shareholders at the beginning of the general meeting to ensure that shareholders are familiar with the voting procedures. Each issue will be proposed by a separate resolution by the Chairman of the general meeting. The poll results will be posted on the websites of the Company and the Stock Exchange on the same day of the general meeting. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("**EGM**").

Procedures and right for shareholders to convene EGM

- An EGM shall be convened on the requisition of 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 (the "**Eligible Shareholder(s)**") having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition.
- The requisition must state clearly the names of the Eligible Shareholders concerned, specify the objects of the meeting, and be signed by the Eligible Shareholders concerned. The Eligible Shareholders must prove their shareholdings in the Company to the satisfaction of the Company.
- The requisition will be verified with Hong Kong branch share registrar and transfer office of the Company and upon their confirmation that the requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the Articles to all the registered Shareholders. On the contrary, if the requisition has been verified as not in order or the Shareholders concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM.
- If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Corporate Governance Report *(Continued)*

There are no provisions allowing shareholders to move new resolutions at the general meetings under the Companies Law (Revised) of Cayman Islands. However, pursuant to the Articles, shareholders who wish to move a resolution may by means of requisition convene an EGM.

Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at the Company's registered office. Shareholders are encouraged to access to the Company website at www.Jiuzundigital.com for all relevant information including Company's announcements, press releases, financial highlights, the Company's constitutional documents and detailed procedures for shareholders to convene meetings.

J. Shareholder Rights

To safeguard Shareholder interests and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors. Meanwhile, the procedures for Shareholder to (i) convene an extraordinary general meeting, (ii) direct their enquiries to the Board and (iii) put forward proposals at Shareholders' meetings are available.

Shareholders should direct their enquiries about their shareholdings to the Company's Hong Kong share registrar, namely, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Shareholders who wish to put enquiries to the Board can send their enquiries to the company secretary of the Company who will ensure these enquiries to be properly directed to the Board. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Corporate communication of the Company will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

General meetings shall be convened on the written requisition of any two or more Shareholders of the Company deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one shareholder of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. The same procedures also apply to any proposal to be put forward at the general meetings. If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Corporate Governance Report *(Continued)*

All resolutions put forward at a general meeting will be taken by poll pursuant to the Listing Rules. In addition, the poll results will be posted on the websites of the Company and the Stock Exchange after the Shareholders' meeting.

Change In Constitutional Documents

The Company's Articles of Association has been amended and restated with effect from the Listing Date, and are available on the respective website of the Stock Exchange and the Company. There has not been any change in the Company's constitutional documents during the period commencing from the Listing Date to the date of this annual report.

K. Company Secretary

Mr. TSUI Wing Tak (徐 穎 德) was appointed as our company secretary on 22 February 2019 and is responsible for the secretarial affairs of our Company.

Mr. Tsui is the sole shareholder and director of AE Majoris Corporate Services Company Limited, a company secretarial services provider which has been engaged by us for company secretarial services. AE Majoris Corporate Services Company Limited will be a connected person of our Company upon Listing and the provision of company secretarial services pursuant to the corporate secretarial support service agreement dated 22 February 2019 entered into between the Company and AE Majoris Corporate Services Company Limited will constitute continuing connected transactions for our Company upon Listing.

Directors and Senior Management

The Directors and senior management of the Company as at 31 December 2020 were:

DIRECTORS

Executive Directors

Mr. LU Jian (*Chairman*)

Mr. LIANG Junhua

Non-executive Directors

Ms. SU Shaoping

Mr. TSUI Wing Tak

Independent Non-executive Directors

Mr. ZHAO Junfeng

Mr. ZHUANG Wensheng

Ms. SONG Yi

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 independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. LU Jian (呂建), aged 44, is our Chairman, Chief Executive Officer and Executive Director responsible for the overall management of our Group. He was appointed as a Director on 5 February 2018 and was re-designated as an executive Director, chief executive officer and Chairman of our Company on 21 February 2020. Mr. Lu has served as operation director of Family Doctor responsible for operation of Family Doctor's business since 5 May 2011. Mr. Lu was awarded a Bachelor of Computer Systems and Automation from Hubei University of Technology (湖北工業大學) in June 2000 and a Master of Business Administration from China Europe International Business School (中歐國際工商學院) in August 2016.

Prior to joining our Group, Mr. Lu worked as regional manager of South China of Sina Mobile (新浪無線), a internet services company, from February 2004 to April 2006 responsible for the management of the South China mobile internet business.

From November 2006 to December 2009, he served as vice-sales director of 深圳市華動飛天網絡技術開發有限公司 (Shenzhen Huadong Feitian Network Development Co., Ltd*), a mobile media company, and was responsible for sales in the PRC.

Directors and Senior Management *(Continued)*

Mr. LIANG Junhua (梁俊華), aged 34, is our Chief Financial Officer and Executive Director responsible for our Group's overall strategic planning and business direction. He was appointed as a Director on 5 February 2018 and was re-designated as an executive Director on 21 February 2020. Mr. Liang has served as chief financial officer of our Group and was responsible for overall management of our Group's financial operations since 1 February 2018.

Prior to joining our Group, Mr. Liang served as manager of 國信證券 (Guoxin Securities Company Limited*), a company principally engaged in investment banking, from 2011 to 2012. From March 2013 to December 2017, he worked as assistant president for Glory Medical Co., Ltd. (深圳市尚榮醫療股份有限公司), a company principally engaged in the design and construction of medical facilities and the manufacture and distribution of medical supplies listed on the Shenzhen Stock Exchange (stock code: 2551), responsible for business strategies, financial budget, review of financial statements. He served as financial director of Convida Healthcare and System Inc., a fellow subsidiary of Glory Medical Co., Ltd. (深圳市尚榮醫療股份有限公司) principally engaged in the manufacture, research and development of medical equipment, from June 2014 to December 2017 responsible for financial management and planning.

NON-EXECUTIVE DIRECTORS

Ms. SU Shaoping (蘇少萍), aged 67, is our Non-executive Director responsible for providing professional opinion and judgment to our Board. She was appointed as a Director on 5 February 2018 and was re-designated as a non-executive Director on 21 February 2020. Ms. Su was awarded a Bachelor of Administrative Management from South China Normal University (華南師範大學) in July 1990, a Master of Administrative Management from South China University of Technology (華南理工大學) in July 1999 and a Master of Business Administration from Asia International Open University (Macau) (亞洲澳門國際公開大學) in September 2000.

Prior to joining our Group on 5 February 2018, Ms. Su was an engineer at 華工大無線電研究所 (South China University of Technology Radio Research Institute*) responsible for radio and automatic control research from December 1976 to October 1985. She served as vice-secretary of 華工大電子資訊學院 (South China University of Technology School of Electronic Information*) and 華工大電子物理學院 (South China University of Technology School of Physics*) from October 1985 to October 2001 and from November 2001 to May 2005, respectively, responsible for the management of the respective universities. She also served as secretary of 華工醫院 (South China University of Technology Hospital*) from May 2005 to January 2009 responsible for the management of the hospital. She also served as education department manager of 華南理工大學繼續教育學院 (South China University of Technology School of Continuing Education*) from March 2009 to June 2018 responsible for education department management.

Directors and Senior Management *(Continued)*

Mr. TSUI Wing Tak (徐穎德), aged 39, is our Non-executive Director responsible for providing professional opinion and judgment to our Board and is the board representative of the pre-IPO investors of the Pre-IPO Investment. He was appointed as a Director on 19 February 2019 and was re-designated as a non-executive Director on 21 February 2020. Mr. Tsui was awarded a Bachelor of Business Administration in accounting from Hong Kong University of Science and Technology in November 2004. He was admitted as a certified public accountant and a certified public accountant (practising) of the Hong Kong Institute of Certified Public Accountants in January 2009 and January 2012, respectively.

Mr. Tsui has more than 15 years of experience in the accounting and corporate field. Mr. Tsui has been the Chief Executive Officer of AE Majoris Advisory Company Limited which is principally engaged in the provision of corporate advisory services, since January 2012. He was the Company Secretary of Noble House (China) Holdings Limited (now known as Zhonghua Gas Holdings Limited) (stock code: 8246), a company listed on GEM, from July 2013 to August 2014. From August 2004 to January 2012, Mr. Tsui worked in an international accounting firm in Hong Kong with his last position as a Manager in auditing. Mr. Tsui has been the Executive Director of Tree Holdings Limited (stock code: 8395), a company listed on the GEM Board of the Stock Exchange, since 6 September 2016. Mr. Tsui was a Non-Executive Director of CCT Land Holdings Limited (stock code: 261), a company listed on the Main Board of the Stock Exchange, from January 2017 to April 2018. Mr. Tsui has been the Company Secretary of Ching Lee Holdings Limited (stock code: 3728), a company listed on the Main Board of the Stock Exchange, since 14 August 2017.

Mr. Tsui was appointed by the Embassy of the Republic of the Uganda in Beijing as Honorary Trade, Tourism and Investment Consultant/Adviser on China (Hong Kong and Macau SAR) from November 2016 to June 2019.

Mr. Tsui was appointed as a member of the Chinese People's Political Consultative Conference of Qinzhou City in Guangxi Province in China since December 2019.

Mr. Tsui was appointed by the Ministry of Foreign Affairs and Regional Integration of the Republic of Ghana as Honorary Consul of Ghana in Hong Kong in March 2020.

Mr. Tsui graduated from The Hong Kong University of Science and Technology with a degree of Bachelor of Business Administration (Honours) in Accounting in November 2004. He was admitted as a Certified Public Accountant and a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants in January 2009 and January 2012, respectively.

Directors and Senior Management *(Continued)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHUANG Wensheng (莊文勝), aged 53, is our Independent Non-executive Director responsible for supervising and providing independent judgment to our Board. He joined our Group on 21 February 2020 when he was appointed as an independent non-executive Director. He was awarded a Bachelor of Mechanics from Hangzhou Dianzi University (杭州電子科技大學) in July 1990.

Mr. Zhuang worked or assumed offices (as the case may be) in various companies or entities including the following:

Period of services	Name of entity	Principal business activities	Major office and responsibilities
February 2006 – July 2006 and July 2007 – February 2015	Harvest Fund Management (嘉實基金)	Asset management	General manager of Guangdong branch, responsible for marketing
Since July 2015	廣東華山會投資管理有限公司 (Guangdong Huashanhui Investment Management Co., Ltd.*)	Business services	Executive director and general manager, responsible for company strategy and execution
Since December 2015	廣東華山蒼投資控股有限公司 (Guangdong Huashanhui Investment Holdings Co., Ltd.*)	Training and financial marketing services	Executive director and general manager, responsible for company strategy and execution
Since March 2016	廣東鼎泰匯一投資有限公司 (Guangdong Dingtai Huiyi Investment Co., Ltd.*)	Business services	Executive director and general manager, responsible for management of the company

Directors and Senior Management *(Continued)*

Mr. ZHAO Junfeng (趙俊峰), aged 49, is our Independent Non-executive Director responsible for supervising and providing independent judgment to our Board. He joined our Group on 21 February 2020 when he was appointed as an independent non-executive Director. He was awarded a Bachelor of Accounting from Nankai University (南開大學) in July 1994. Mr. Zhao has held an independent director qualification certificate from the CSRC since December 2015 and a fund qualification certificate from the Asset Management Association of China since April 2016.

Apart from the accounting and financial expertise from his educational and professional background, Mr. Zhao has the appropriate related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules through his experience working as financial officer or manager in various different companies as listed below:

Period of services	Name of entity	Principal business activities	Major office and responsibilities
July 1994–April 1997	香港溢達集團有限公司 (Hong Kong Esquel Group Limited*)	Textile processing	Accountant responsible for finance services
April 1997–March 1998	Shenzhen Sundan Chain Store Co., Ltd. (深圳順電連鎖股份有限公司) (NEEQ Stock Code: 831321)	Commercial retail	Financial manager, responsible for management of finance department
January 1999–March 2000	深圳好威實業發展有限公司 (Shenzhen Haowei Industrial Development Co., Ltd.*)	Agricultural development	Financial manager, responsible for management of finance department
April 2002–April 2005	Shenzhen State Microelectronics Co., Ltd. (深圳市國微電子有限公司) (Shenzhen Stock Exchange Stock Code: 002049)	Integrated circuit design	Secretary to the board of directors, responsible for overall strategic planning and business direction
Since September 2004	深圳市融創投資顧問有限公司 (Shenzhen Sunac Investment Consultancy Co., Ltd.*)	Venture capital	General manager responsible for company strategy and execution

Directors and Senior Management *(Continued)*

Period of services	Name of entity	Principal business activities	Major office and responsibilities
January 2013– September 2017	廣東達安項目管理股份有限公司 (Guangdong Daan Project Management Co., Ltd.) (Shenzhen Stock Exchange Stock Code: 300635)	Construction project management	Independent director, member of audit committee and strategic committee, and chairman of remuneration and nomination committee, responsible for, among others, reviewing of financial reports, formulation of internal control policies, appraising finance and accounts department personnel, strategize long term development plan, recommending to the board of directors on major corporate financing activities and major capital and investment operations

Through his working experience, Mr. Zhao has experience with accounting and related financial management expertise, including experience in internal controls, in preparing and auditing comparable financial statements, and reviewing and analysing audited financial statements, in particular from his time as an accountant for 香港溢達集團有限公司 (Hong Kong Esquel Group Limited*) and as financial manager of the finance department of each of Shenzhen Sundan Chain Store Co., Ltd., a NEEQ listed company, and 深圳好威實業發展有限公司 (Shenzhen Haowei Industrial Development Co., Ltd.*), respectively, as secretary to the board of directors of Shenzhen State Microelectronics Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002049), as general manager of 深圳市融創投資顧問有限公司 (Shenzhen Sunac Investment Consultancy Co., Ltd.*) responsible for company strategy and execution, as the abovementioned roles with 廣東達安項目管理股份有限公司 (Guangdong Daan Project Management Co., Ltd.). Mr. Zhao has also gained the related financial management expertise by being involved in his roles with 廣東達安項目管理股份有限公司 (Guangdong Daan Project Management Co., Ltd.), which involved in, finance meetings, periodic financial reviews, annual financial audits and reporting/working closely in the preparation of financial statements, valuation analysis, participation in pricing and negotiation of transaction terms and preparation of financial documents.

Directors and Senior Management *(Continued)*

Ms. SONG Yi (宋屹), aged 38, is our Independent Non-executive Director responsible for supervising and providing independent judgment to our Board. She joined our Group on 21 February 2020 when she was appointed as an independent non-executive Director. She was awarded a Bachelor of Finance from University of Salford in January 2005 and a Master of Business Administration from China Europe International Business School (中歐國際工商學院) in August 2016.

Ms. Song also worked or assumed offices (as the case may be) in various companies or entities including the following:

Period of services	Name of entity	Principal business activities	Major office and responsibilities
October 2005– October 2007	KPMG	Audit tax advisory	Auditor, responsible for company audit
December 2007– May 2011	鷹牌控股有限公司 (Eagle Brand Holdings Company Limited*)	Manufacture and sale of construction materials	Finance manager, chief financial officer and secretary of the board of directors, responsible for financial management
May 2011– February 2013	廣東集成創業投資有限公司 (Guangdong Integrated Venture Capital Company Limited*)	Equity investment	Vice president, responsible for overall management of the company
February 2013– January 2016	安徽廣印堂中藥股份有限公司 (Anhui Guang Yin Tang Chinese Medicine Company Limited*)	Manufacture and sale of Chinese medicine	Deputy general manager and secretary of the board of directors, responsible for corporate finance and listing of company
Since November 2015	深圳前海正道啟迪資產管理 有限公司 (Shenzhen Qianhai Zhengdao Qidi Asset Management Company Limited*)	Investment advisory	General manager, responsible for overall management of the company
March 2017– November 2018	Maple Elite Clearing Limited	Equity Investment	Vice president, responsible for overall management of the company
Since November 2018	Samtak Investment Holdings Limited	Investment consulting	Vice president, responsible for overall management of the company

Directors and Senior Management *(Continued)*

SENIOR MANAGEMENT

The Group's senior management is responsible for the day-to-day management of the business of the Group. The table below shows certain information in respect of the senior management of the Group as at 31 December 2020:

Name	Age	Position/Title	Date of Appointment or Re-designation
ZHAO Xinlin	36	Chief Executive Officer	December 2020

Mr. ZHAO Xinlin (趙新林), aged 36, is the Chief Executive Officer of our Group responsible for operation of interactive entertainment department and conventional business development. He joined our Group in July 2015 as the senior vice-president of Family Doctor. He was awarded a Bachelor of Information Management and Information System from Xiangtan University (湘潭大學) in June 2006.

Prior to joining our Group, Mr. Zhao served as promotion and coordination and network technology supervisor of 廣州藝揚文化傳播有限公司 (Guangzhou Yiyang Media Co., Ltd.*), a company principally engaged in the distribution of audio and video products, from April 2006 to July 2008 responsible for general marketing and providing internet technical support. He also served as senior vice-president of 廣州市耕源文化傳播有限公司 (Guangzhou Gengyuan Media Co., Ltd.*), an internet content provider company principally engaged in providing mobile value-added services, from August 2008 to July 2015, and was responsible for management and maintenance of business platform system and business development.

Independent Auditor's Report



To the shareholders of Jiu Zun Digital Interactive Entertainment Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Jiu Zun Digital Interactive Entertainment Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 136, 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Independent Auditor's Report *(Continued)*

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Impairment of trade receivables

As at 31 December 2020, the Group had gross trade receivables of approximately RMB61,755,000 before impairment provision of approximately RMB3,807,000.

Significant management judgement and estimation were required in assessing the expected credit losses ("ECLs") for the trade receivables, with reference to the grouping of various debtor segments, ageing profile of the trade receivable balances, existence of disputes, and past repayment history of debtors and forecasted economic conditions.

The related disclosures are included in notes 2.4, 3 and 17 to the consolidated financial statements.

In evaluating management's impairment assessment, our procedures included: (i) obtaining confirmations and evidence of subsequent settlements for selected trade receivable balances on a sample basis; and (ii) evaluating management's assumptions used to determine the ECLs through testing of the underlying information on the ageing reports generated by the Group's financial reporting system and assessing the repayment history of the debtors as well as the forward-looking factors with reference to the related publicly available information. We also assessed the related disclosures in the consolidated financial statements.

Revenue recognition — estimation of average playing period of paying players

During the year ended 31 December 2020, the Group's revenue from multi-player mobile games amounted to RMB131,966,000.

The Group recognized revenue from multi-player mobile games ratably over the estimated average playing period of paying players.

Significant management judgements and estimation were required in assessing the average playing period of paying players, with reference to the game profile, paying player behavior patterns and identification of events that may trigger changes in the assessment of average playing period of paying players.

The related disclosures are included in notes 2.4, 3, 5 and 22 to the consolidated financial statements.

In evaluating management's assessment, our procedures included: (i) assessing the assumptions and judgements made by the management for the average playing period of paying players on selected types of multi-player mobile games, on a sample basis, by reviewing the historical accuracy of these estimates; (ii) obtaining monthly settlements by the payment platforms to the Group and the bank-in slips on a sample basis, comparing settlement amounts on the bank statements and reconciling the settlement amounts in the statements to the accounting records; (iii) recalculating the Group's revenue recognized and contract liabilities with reference to the estimation as at the end of the reporting period; and (iv) understanding the process for which management identified events that might trigger changes in the average playing period of paying players and assessing if these changes have been reflected in the estimation.

Independent Auditor's Report *(Continued)*

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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.

Independent Auditor's Report *(Continued)*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent Auditor's Report *(Continued)*

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

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

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

30 March 2021

Consolidated Statement of Profit or Loss

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	170,179	219,194
Cost of sales		(114,541)	(139,622)
Gross profit		55,638	79,572
Other income and gains, net	5	4,497	2,409
Selling and distribution expenses		(1,258)	(861)
Administrative expenses		(18,650)	(8,067)
Research and development expenses		(14,012)	(7,934)
Reversal of impairment/(impairment) of trade receivables	17	(1,045)	706
Other expenses		(19,406)	(9,711)
Finance costs	7	(150)	(1,039)
Share of results of associates		(193)	–
PROFIT BEFORE TAX	6	5,421	55,075
Income tax expense	10	(4,398)	(13,867)
PROFIT FOR THE YEAR		1,023	41,208
Attributable to:			
Owners of the parent		(1,321)	37,244
Non-controlling interests		2,344	3,964
		1,023	41,208
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		RMB(0.3) cent	RMB9.5 cents
Diluted		RMB(0.3) cent	RMB9.0 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
PROFIT FOR THE YEAR	1,023	41,208
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(7,142)	(171)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	(6,119)	41,037
Attributable to:		
Owners of the parent	(8,463)	37,073
Non-controlling interests	2,344	3,964
	(6,119)	41,037

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	469	536
Prepayments and deposit	18	47,886	5,660
Interests in associates	15	22,207	–
Equity investments designated at fair value through other comprehensive income	16	3,600	–
Total non-current assets		74,162	6,196
CURRENT ASSETS			
Trade receivables	17	57,948	66,733
Prepayments, deposits and other receivables	18	62,231	54,111
Due from shareholders	25	–	13,613
Financial asset at fair value through profit or loss	19	13,672	–
Cash and cash equivalents	20	47,156	50,899
Total current assets		181,007	185,356
CURRENT LIABILITIES			
Trade payables	21	5,013	16,032
Contract liabilities	22	4,954	4,304
Other payables and accruals	23	13,952	16,731
Convertible bonds	24	–	16,578
Tax payable		2,824	11,122
Total current liabilities		26,743	64,767
NET CURRENT ASSETS		154,264	120,589
TOTAL ASSETS LESS CURRENT LIABILITIES		228,426	126,785
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	2,164	1,389
Net assets		226,262	125,396

Consolidated Statement of Financial Position *(Continued)*

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	27	4,946	1
Equity component of convertible bonds	24	–	1,128
Reserves	28	210,249	114,519
		215,195	115,648
Non-controlling interests		11,067	9,748
Total equity		226,262	125,396

LU Jian

Director

LIANG Junhua

Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

Notes	Attributable to owners of the parent										
	Issued capital	Share premium account	Equity component of		Statutory reserve funds	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity	
			convertible bonds	Other reserve							
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
			(note 24)	(note 28(i))	(note 28(ii))	(note 28(iii))					
At 1 January 2019	1	-	1,128	10,000	8,865	-	58,581	78,575	5,784	84,359	
Profit for the year	-	-	-	-	-	-	37,244	37,244	3,964	41,208	
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations	-	-	-	-	-	(171)	-	(171)	-	(171)	
Total comprehensive income for the year	-	-	-	-	-	(171)	37,244	37,073	3,964	41,037	
Transfer from retained profits	-	-	-	-	500	-	(500)	-	-	-	
Disposal of subsidiaries	29	-	-	-	(780)	-	780	-	-	-	
At 31 December 2019 and 1 January 2020	1	-*	1,128	10,000*	8,585*	(171)*	96,105*	115,648	9,748	125,396	
Profit/(loss) for the year	-	-	-	-	-	-	(1,321)	(1,321)	2,344	1,023	
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations	-	-	-	-	-	(7,142)	-	(7,142)	-	(7,142)	
Total comprehensive income/(loss) for the year	-	-	-	-	-	(7,142)	(1,321)	(8,463)	2,344	(6,119)	
Conversion of convertible bonds	24	-	18,045	(1,128)	-	-	-	16,917	-	16,917	
Issue of shares under initial public offering	27(d)	4,945	149,146	-	-	-	-	154,091	-	154,091	
Share issue expenses		-	(37,023)	-	-	-	-	(37,023)	-	(37,023)	
Dividend paid by a subsidiary to its then Shareholders	11	-	-	-	-	-	(13,613)	(13,613)	-	(13,613)	
Dividend to a non-controlling shareholder		-	-	-	-	-	-	-	(1,025)	(1,025)	
Final 2019 dividend	11	-	-	-	-	-	(12,362)	(12,362)	-	(12,362)	
At 31 December 2020		4,946	130,168*	-	10,000*	8,585*	(7,313)*	68,809*	215,195	11,067	226,262

* These reserve accounts comprise the consolidated reserves of RMB210,249,000 (2019: RMB114,519,000) in the consolidated statement of financial position as at 31 December 2020.

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,421	55,075
Adjustments for:			
Finance costs	7	150	1,039
Share of results of associates		193	–
Interest income	5	(905)	(676)
Depreciation of property, plant and equipment	6	366	340
Depreciation of right-of-use assets	6	384	–
Impairment/(reversal of impairment) of trade receivables	6	1,045	(706)
Impairment of deposits	6	–	661
Loss on disposal of items of property, plant and equipment	6	4	3
Write-off of items of property, plant and equipment	6	355	–
Gain on write-back of an other payable	5	(1,155)	–
Gain on termination of a lease	5	(52)	–
Fair value gain on financial asset at fair value through profit or loss, net	5	(495)	–
Gain on disposal of subsidiaries	5	–	(497)
Fair value gain on modification of convertible bonds	5	–	(403)
		5,311	54,836
Decrease/(increase) in trade receivables		7,740	(27,072)
Increase in prepayments, deposits and other receivables		(50,346)	(96,946)
Decrease in amounts due from shareholders		–	24
Increase/(decrease) in trade payables		(11,019)	2,468
Increase in contract liabilities		650	4,304
Increase/(decrease) in other payables and accruals		1,651	(2,984)
Cash used in operations		(46,013)	(65,370)
Taxes paid		(11,921)	(3,099)
Net cash flows used in operating activities		(57,934)	(68,469)

Consolidated Statement of Cash Flows *(Continued)*

Year ended 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		905	676
Purchases of items of property, plant and equipment		(658)	(227)
Purchases of financial assets at fair value through profit or loss		(128,278)	(223,550)
Proceeds from disposals of financial assets at fair value through profit or loss		113,556	223,550
Disposal of subsidiaries	29	–	51,835
Acquisition of interests in associates		(20,400)	–
Increase in amount due from an associate		(2,000)	–
Purchases of equity investments designated at fair value through other comprehensive income		(3,600)	–
Net cash flows from/(used in) investing activities		(40,475)	52,284
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under initial public offering		154,091	–
Share issue expenses		(37,023)	–
Lease payments		(366)	–
Dividend paid by a subsidiary to the then shareholders		(4,300)	(22,200)
Dividend paid		(12,406)	–
Net cash flows from/(used in) financing activities		99,996	(22,200)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		50,899	89,270
Effect of foreign exchange rate changes, net		(5,330)	14
CASH AND CASH EQUIVALENTS AT END OF YEAR		47,156	50,899
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	47,156	50,899

Notes to the Consolidated Financial Statements

31 December 2020

1. CORPORATE AND GROUP INFORMATION

Jiu Zun Digital Interactive Entertainment Group Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite 1801, R&F To-win Building, 30 Huaxia Road, Zhujiang New Town, Tianhe District, Guangzhou, People’s Republic of China (the “PRC”). The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 17 March 2020 (the “Listing”).

The Company is an investment holding company. During the year, the Company’s subsidiaries were principally engaged in the development and operation of mobile games and the distribution of digital media content in Mainland China.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Emperor Interactive Entertainment Development Company Limited	British Virgins Islands	United States dollar (“US\$”)1	100	–	Investment holding
Jiu Zun Hu Yu Entertainment Technology Company Limited	Hong Kong	Hong Kong dollar (“HK\$”)1	–	100	Investment holding
Guangzhou Jiu Zun Interactive Entertainment Company Limited (“WFOE”) 廣州市九尊互娛科技發展有限公司* ^	PRC/Mainland China	HK\$60,000,000	–	100	Investment holding
Guangzhou Jiu Zun Digital Entertainment Technology Development Company Limited (“Guangzhou Jiu Zun”) 廣州市九尊數娛科技發展有限公司* #	PRC/Mainland China	RMB9,300,000	–	100	Investment holding
Guangzhou Family Doctor Information Technology Company Limited (“Family Doctor”) 廣州家庭醫生信息技術有限公司* #	PRC/Mainland China	RMB10,000,000	–	93	Development and operation of mobile games and distribution of digital media content

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Zhile Information Technology Company Limited 廣州市指樂信息技術有限公司* #	PRC/Mainland China	RMB10,000,000	–	93	Development and operation of mobile games
Guangzhou Zhangbao Information Technology Company Limited 廣州市掌寶信息技術有限公司* #	PRC/Mainland China	RMB1,000,000	–	93	Distribution of digital media content
Guangzhou Jinyi Electronic Technology Company Limited 廣州市金奕電子科技有限公司* #	PRC/Mainland China	RMB1,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Family Communications Technology Company Limited 廣州市家庭通信科技有限公司* #	PRC/Mainland China	RMB1,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Family Electronic Technology Company Limited 廣州市家庭電子科技有限公司* #	PRC/Mainland China	RMB10,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Beijing Fengyun Wanxiang Technology Company Limited 北京風雲萬象科技有限公司* #	PRC/Mainland China	RMB10,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Beijing Xinlian Information Technology Company Limited 北京新連信息技術有限公司* #	PRC/Mainland China	RMB10,000,000	–	93	Development and operation of mobile games

* The English names of these entities registered in the PRC represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English name.

^ The WFOE is registered as a wholly-foreign-owned enterprise under PRC law.

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

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

1. CORPORATE AND GROUP INFORMATION *(Continued)*

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income and financial asset at fair value through profit or loss which have been measured at fair value. They are presented in RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis for 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.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.1 BASIS OF PREPARATION *(Continued)*

Basis for consolidation *(Continued)*

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 derecognizes (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 recognizes (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 recognized 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 HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19 Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

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

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.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

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

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

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark within 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.

Amendment to HKFRS 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 or before 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 office premises 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 amendment 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. The amendment did not have material impact on the financial position and performance of the Group.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

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

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, 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 HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{3,6}
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{3,5}
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ²
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i> ²
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 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 HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

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

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

Amendments to HKFRS 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* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 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 HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(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.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 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 HKFRS 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 amendments will not have any impact on the financial position and performance of the Group as the Group did not have any interest-bearing bank or other borrowings as at 31 December 2020.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

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

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

Amendments to HKAS 1 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.

Amendments to HKAS 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 HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 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.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interests 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.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in associates *(Continued)*

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Fair value measurement

The Group measures its equity investments designated at fair value through other comprehensive income and financial asset at fair value through profit or loss 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

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

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control 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

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

- (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.

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized 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 recognizes 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:

Furniture, fixtures and office equipment	20% to 33%
Motor vehicle	20%
Leasehold improvements	Over the lease terms

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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 recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 capitalized 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.

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 recognizes 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 recognized 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 recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets of office premises are depreciated on a straight-line basis over the lease terms.

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.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee *(Continued)*

(b) Lease liabilities

Lease liabilities are recognized 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 recognized as an expense in the period in which the event or condition that triggers the payment occurs.

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

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises and staff quarters (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

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

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

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement *(Continued)*

In order for a financial asset to be classified and measured at amortized 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 amortized 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 recognized 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 amortized cost (debt instruments)

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (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 recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes 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 recognizes 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.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach

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

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

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

Financial assets at amortized 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 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 |

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes 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 loans and borrowings or payables, as appropriate.

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

Subsequent measurement

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

Financial liabilities at amortized cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized 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 recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized 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 amortization is recognized in the statement of profit or loss.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognized as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled, 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 recognized 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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, which are not restricted as to use.

Provisions

A provision is recognized 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 recognized 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 recognized in the statement of profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized 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/jurisdictions 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 recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized 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 utilized.

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 utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized 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.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized 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 realize 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 recognized 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 recognized as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized 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 recognized 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 recognized 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 HKFRS 15.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

(a) Mobile game development and operation

The Group's mobile games are played on individual mobile devices and allow players to play for free. Players can purchase in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience. The Group distributes its mobile games through cooperation with various third-party game distribution platforms, including mobile operators, online application stores and mobile game portals, and derives its revenue from sales of in-game virtual items. The third-party platforms generally are responsible for distribution, marketing, platform maintenance and payment collections from players. Players purchase the Group's in-game virtual items through the platforms' own charging systems by remitting the payment directly to the platforms.

For single player mobile games, since they are downloaded and are fully functional once installed on each individual mobile device, the Group does not have the obligation for game operation and maintenance once the game is downloaded and neither has the access to the game data of each mobile device. Revenue is recognized upon the purchase of in-game items and premium features by players and all other criteria for revenue recognition are met.

For multi-player mobile games where the Group is acting as a principal, upon the sales of the in-game items and premium features, the Group typically has an implied obligation to provide the services which enable the virtual items to be consumed. As a result, the payments received from the sales of the in-game items and premium features are initially included in contract liabilities in the consolidated statement of financial position and are recognized as revenue subsequently only when the services have been rendered. The Group recognizes the revenue ratably over the estimated average playing period of paying players, starting from the time when virtual items are delivered to the individual players' accounts and all other revenue recognition criteria are met.

Third-party platforms may offer various discounts or incentives from time to time to players purchasing in-game virtual items through their platforms. The actual prices paid by individual players may be lower than the standard prices of virtual items. Information relating to such discounts or incentives are not available to the Group. Accordingly, the Group is unable to determine the gross amount paid by the players to these platforms. For revenue related to these platforms, it is measured at the fair value of the consideration received and receivable, which is the net amount from these third-party platforms.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

(b) Digital media content distribution

The Group distributes its digital media content through cooperation with various third-party distribution platforms, including mobile operators and online application stores, and derives its revenue from the sale of digital media content. The purchasers of the Group's digital media content generally purchase specific digital media content and cannot cancel the purchase once made. The purchasers can pay for their purchases through third-party distribution platforms. The purchased content usually has no expiry period. The revenue from purchase of digital media content is recognized at the time of purchase by the purchaser as the Group does not have further obligation after providing the content to the purchaser upon purchase and all other criteria for revenue recognition are met.

Third-party platforms may offer various discounts or incentives from time to time to purchasers of the Group's digital media content using their platforms. The actual price paid by individual purchaser may be lower than the standard price of digital media content. Information relating to such discount or incentive is not available to the Group. Accordingly, the Group is unable to determine the gross amount paid by the purchasers to these platforms. For revenue related to these platforms, it is measured at the fair value of the consideration received and receivable, which is the net amount from these third-party platforms.

(c) Information services

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

(d) Interest income

Interest income is recognized 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.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract liabilities

A contract liability is recognized 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 recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

Pension scheme

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

Dividends

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

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

Foreign currencies

The financial statements is presented in RMB, which is different from the Company's functional currency, HK\$. As the major revenues and assets of the Group are derived from the operations in the PRC, RMB is chosen as the presentation currency to present the financial statements. 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 recognized 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 functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into 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 weighted average exchange rates for the year.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The resulting exchange differences are recognized 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 recognized in the statement of profit or loss.

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, 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.

Judgments

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

Contractual Arrangements

Guangzhou Jiu Zun and its subsidiaries (collectively, the "PRC Operating Entities") are mainly engaged in the provision of mobile game development and operation and digital media content distribution in the PRC, which falls in the scope of the Internet cultural business that foreign investors are prohibited to invest.

The Group exercises control over the PRC Operating Entities and enjoys all economic benefits of the PRC Operating Entities through certain contractual arrangements.

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

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

Judgments *(Continued)*

Principal vs agent

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

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

During the year, the Group took primary responsibilities for game operation, providing customer services and controlling games and services. Accordingly, the Group recorded the revenue from mobile game development and operation on a gross basis after the deduction of certain percentage of gross billings retained by third party platforms. Service fees paid to distribution channel providers and settlement agents are recorded as cost of sales.

Third-party platforms (including settlement agents) may offer various discounts or incentives from time to time to players purchasing in-game virtual items through their platforms. The actual prices paid by individual players may be lower than the standard prices of virtual items. Information relating to such discounts or incentives are not available to the Group. Accordingly, the Group is unable to determine the gross amount paid by the players to these platforms. For revenue related to these platforms, it is measured at the fair value of the consideration received and receivable, which is the net amount from these third-party platforms.

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.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various debtor segments that have similar loss patterns (i.e., by debtor type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Provision for expected credit losses on trade receivables *(Continued)*

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecasted economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a debtor's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17 to the financial statements.

Estimates of average playing period of paying players

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

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in mobile game development and operation and digital media content distribution 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.

Geographical information

(a) Revenue from external customers

All significant external customers of the Group are located in Mainland China. Accordingly, no geographical information of revenue from external customers is presented.

(b) Non-current assets

All significant non-current assets of the Group are located in Mainland China. Accordingly, no geographical information of non-current assets is presented.

Information about major customers

No revenues from the Group's transactions with a single customer amounted to 10% or more of the Group's revenues for the years ended 31 December 2020 and 2019.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers		
Mobile games		
— Development and operation	152,740	189,499
— Information services	108	2,310
Digital media content distribution	17,331	27,385
Total revenue from contracts with customers	170,179	219,194
Timing of revenue recognition		
Point in time <i>(note (a))</i>	38,213	154,440
Over time <i>(note (b))</i>	131,966	64,754
Total revenue from contracts with customers	170,179	219,194

Notes:

- (a) Including revenue from single player mobile games. Since they are downloaded and are fully functional once installed on each individual mobile device, the Group does not have the obligation for game operation and maintenance once the game is downloaded and neither has the access to the game data of each mobile device. Revenue is recognized upon the purchase of in-game items and premium features by players and all other criteria for revenue recognition are met.
- (b) Including revenue from multi-player mobile games. Since the Group has an implied obligation to provide the services which enable the virtual items to be consumed, revenue is recognized ratably over the estimated average playing period of paying players, starting from the time when virtual items are delivered to the individual players' accounts and all other revenue recognition criteria are met.

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

	2020 RMB'000	2019 RMB'000
Revenue recognized that was included in contract liabilities at the beginning of the reporting period:		
Multi-player mobile game revenue	4,304	—

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

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

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
Other income			
Interest income		905	676
Government grants*		1,262	250
Others		628	583
		2,795	1,509
Gains, net			
Gain on write-back of an other payable		1,155	–
Gain on termination of a lease	14(c)	52	–
Fair value gain on financial asset at fair value through profit or loss, net		495	–
Gains on disposal of subsidiaries	29	–	497
Fair value gain on modification of convertible bonds	24	–	403
		1,702	900
		4,497	2,409

* Various government grants of RMB1,150,000 have been received by certain subsidiaries as these subsidiaries were qualified as High and New Technology Enterprises in the PRC. The remaining mainly represented covid-19 related subsidies received from the local government for employment support and business operation support in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

6. PROFIT BEFORE TAX

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

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
Cost of sales		114,541	139,622
Auditor's remuneration		1,494	500
Depreciation of property, plant and equipment	13	366	340
Depreciation of right-of-use assets	14(a)	384	–
Lease payments not included in the measurement of lease liabilities	14(c)	1,205	1,126
Employee benefit expense (including directors' and chief executives' remuneration (<i>note 8</i>)):			
Wages, salaries, discretionary bonuses and allowances		11,154	7,681
Pension scheme contributions (defined contribution scheme)		443	938
		11,597	8,619
Impairment/(reversal of impairment) of trade receivables, net [#]	17	1,045	(706)
Impairment of deposits [#]	18	–	661
Loss on disposal of items of property, plant and equipment [#]	13	4	3
Write-off of items of property, plant and equipment [#]	13	355	–
Fair value gain on financial asset at fair value through profit or loss, net	5	(495)	–
Fair value gain on modification of convertible bonds	24	–	(403)

[#] Included in "Other expenses" in the consolidated statement of profit or loss

7. FINANCE COSTS

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Interest on convertible bonds		116	1,039
Interest on lease liabilities	14(b)	34	–
		150	1,039

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

8. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION

Directors' and chief executives' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (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:

	2020	2019
	RMB'000	RMB'000
Fees	399	–
Other emoluments		
Salaries and allowances	1,815	12
Pension scheme contributions	1	50
	2,215	62

(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. Zhuang Wensheng	133	–
Mr. Zhao Junfeng	133	–
Ms. Song Yi	133	–
	399	–

Mr. Zhuang Wensheng, Mr. Zhao Junfeng and Ms. Song Yi were appointed as independent non-executive directors of the Company on 21 February 2020. There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

8. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION *(Continued)*

(b) Executive directors, non-executive directors and the chief executives

	Fees RMB'000	Salaries and allowances RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2020				
Executive directors:				
Mr. Lu Jian	–	370	–	370
Mr. Liang Jun Hua	–	608	–	608
	–	978	–	978
Non-executive directors:				
Ms. Su Shao Ping	–	266	–	266
Mr. Tsui Wing Tak	–	266	–	266
	–	532	–	532
Chief executive officers:				
Mr. Lu Jian	–	332	–	332
Mr. Zhao Xin Lin	–	25	1	26
	–	357	1	358
	–	1,867	1	1,868
2019				
Director:				
Mr. Lu Jian	–	12	50	62

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

8. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION *(Continued)*

(b) Executive directors, non-executive directors and the chief executives *(Continued)*

Mr. Lu Jian was appointed as a director on 5 February 2018 and re-designated as an executive director and the chief executive officer of the Company on 21 February 2020. Mr. Lu Jian resigned as the chief executive officer on 1 December 2020.

Mr. Liang Jun Hua was appointed as a director on 5 February 2018 and re-designated as an executive director of the Company on 21 February 2020. Ms. Su Shao Ping and Mr. Tsui Wing Tak were appointed as directors on 5 February 2018 and 19 February 2019, respectively and were re-designated as non-executive directors of the Company on 21 February 2020 and 21 February 2020, respectively.

Mr. Zhao Xin Lin was appointed as the chief executive officer of the Company on 1 December 2020.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2019: Nil), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2019: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, discretionary bonuses and allowances	332	1,074
Pension scheme contributions	14	189
	346	1,263

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

	Number of employees	
	2020	2019
Nil to HK\$1,000,000	1	5

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

10. INCOME TAX

All subsidiaries of the Group established in the PRC are subject to PRC corporate income tax at a standard rate of 25% (2019: 25%) during the year, except for:

- (i) Certain subsidiaries of the Group which qualified as High and New Technology Enterprises in Mainland China, were entitled to a lower PRC corporate income tax rate of 15% (2019: 15%);
- (ii) Certain subsidiaries of the Group applied the Small-Scaled Minimal Profit Enterprise Income Tax Preferential Policy announced by the PRC's State Administration of Taxation; and
- (iii) A subsidiary of the Group was qualified as a software enterprise by Guangdong Software Industry Association and was entitled to tax exemption for two years and thereafter to a preferential rate at half of the corporate income tax rate for three years.

	2020	2019
	RMB'000	RMB'000
Current — Mainland China		
Charge for the year	3,623	12,478
Deferred <i>(note 26)</i>	775	1,389
Total tax charge for the year	4,398	13,867

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

10. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the PRC statutory tax rate to the tax charge at the Group's effective tax rate is as follows:

	2020 RMB'000	2019 RMB'000
Profit before tax	5,421	55,075
Tax at the PRC statutory tax rate of 25% (2019: 25%)	1,355	13,769
Lower tax rates enacted by local authorities	(3,419)	(2,617)
Additional deduction for qualified research and development expenses	(833)	(872)
Income not subject to tax	–	(106)
Expenses not deductible for tax	6,523	2,151
Temporary differences not recognized	(48)	(70)
Tax losses not recognized	45	223
Effect of withholding tax at 10% on distributable profits of the Group's PRC subsidiaries	775	1,389
Tax charge at the Group's effective tax rate	4,398	13,867

11. DIVIDENDS

During the year ended 31 December 2020, a subsidiary of the Group declared dividend of approximately RMB13,613,000 (2019: Nil) to its then shareholders for settlement of amounts due from the then shareholders to the Group before the Listing.

The 2019 final dividend of HK2.52 cents per ordinary share which amounted to approximately RMB12,362,000 was recognized as distribution during the year ended 31 December 2020.

The board of directors does not recommend the payment of any final dividend for the year ended 31 December 2020.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share for the year is based on the loss for the year attributable to owners of the parent of RMB1,321,000 (2019: profit of RMB37,244,000), and the weighted average number of ordinary shares of 514,138,142 (2019: 392,560,000) in issue during the year, as if that the reorganization and the capitalization issue had been completed on 1 January 2019.

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2020 in respect of a dilution as the impact of the convertible bonds had an anti-dilutive effect on the basic loss per share amount presented.

During the year ended 31 December 2019, the calculation of the diluted earnings per share was based on the profit for the year attributable to owners of the parent, adjusted to reflect the interest on the convertible bonds and fair value gain on modification of convertible bonds.

The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during the year ended 31 December 2019, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of the convertible bonds into ordinary shares.

The calculation of diluted earnings per share for the year ended 31 December 2019 was based on:

	2019 RMB'000
<hr/>	
Earnings	
Profit attributable to owners of the parent, used in the basic earnings per share calculation:	37,244
Interest on convertible bonds	1,039
Fair value gain on modification of convertible bonds	(403)
	<hr/>
	37,880
	<hr/>
	Number of shares
	2019
<hr/>	
Shares	
Weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation	392,560,000
Effect of dilution — weighted average number of ordinary shares:	
Convertible bonds	27,440,000
	<hr/>
	420,000,000
	<hr/>

Notes to the Consolidated Financial Statements (Continued)

31 December 2020

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicle RMB'000	Total RMB'000
31 December 2020				
At 1 January 2020:				
Cost	–	1,246	121	1,367
Accumulated depreciation	–	(810)	(21)	(831)
Net carrying amount	–	436	100	536
At 1 January 2020, net of accumulated depreciation	–	436	100	536
Additions	205	453	–	658
Disposals	–	(4)	–	(4)
Write-off	(188)	(167)	–	(355)
Depreciation provided during the year	(17)	(326)	(23)	(366)
At 31 December 2020, net of accumulated depreciation	–	392	77	469
At 31 December 2020:				
Cost	–	1,504	121	1,625
Accumulated depreciation	–	(1,112)	(44)	(1,156)
Net carrying amount	–	392	77	469
31 December 2019				
At 1 January 2019:				
Cost	–	1,270	–	1,270
Accumulated depreciation	–	(586)	–	(586)
Net carrying amount	–	684	–	684
At 1 January 2019, net of accumulated depreciation	–	684	–	684
Additions	–	106	121	227
Disposals	–	(3)	–	(3)
Disposal of subsidiaries (note 29)	–	(32)	–	(32)
Depreciation provided during the year	–	(319)	(21)	(340)
At 31 December 2019, net of accumulated depreciation	–	436	100	536
At 31 December 2019:				
Cost	–	1,246	121	1,367
Accumulated depreciation	–	(810)	(21)	(831)
Net carrying amount	–	436	100	536

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

14. LEASES

The Group has lease contracts for its office premises used in its operations and a staff quarter. Leases of office premises and a staff quarter have lease terms ranging from one to two years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	RMB'000
As at 1 January 2019, 31 December 2019 and 1 January 2020	–
Addition	2,151
Termination of a lease	(1,767)
Depreciation charge	(384)
As at 31 December 2020	–

(b) Lease liabilities

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

	RMB'000
Carrying amount at 1 January 2019, 31 December 2019 and 1 January 2020	–
New lease	2,151
Termination of a lease	(1,819)
Accretion of interest recognised during the year	34
Payments	(366)
Carrying amount at 31 December 2020	–

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

14. LEASES *(Continued)*

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

	2020	2019
	RMB'000	RMB'000
Interest on lease liabilities	34	–
Depreciation charge of right-of-use assets	384	–
Expense relating to short-term leases (included in administrative expenses and research and development expenses)	1,205	1,126
Gain on termination of a lease	(52)	–
Total amount recognised in profit or loss	1,571	1,126

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

15. INTERESTS IN ASSOCIATES

	2020	2019
	RMB'000	RMB'000
Share of net assets	376*	–
Goodwill on acquisition	19,831*	–
	20,207	–
Amount due from an associate	2,000	–
	22,207	–

* As the initial accounting for the Group's proportionate share of associates' identifiable net assets and corresponding goodwill arising from the acquisition under the equity method has not been completed by the end of the current year, while the Group is finalising the acquisition date fair value measurement of the underlying identifiable assets and liabilities, the Group has accounted for the investments in associates, including goodwill on acquisition, in these financial statements using provisional amounts.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

15. INTERESTS IN ASSOCIATES *(Continued)*

The amount due from an associate is unsecured, interest-free and repayable on demand. In the opinion of the directors, the amount is unlikely to be repaid in the foreseeable future and is considered as part of the Group's net investment in the associate. There was no recent history of default and past due amounts from an associate. As at 31 December 2020, the loss allowance was assessed to be minimal.

The Group's trade receivable balances with the associates are disclosed in note 17 to the financial statements.

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

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

	2020 RMB'000	2019 RMB'000
Share of the associates' results and total comprehensive loss for the year	193	–
Aggregate carrying amount of the Group's interests in the associates	22,207	–

16. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 RMB'000	2019 RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	3,600	–

The unlisted equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

17. TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	61,755	69,495
Impairment	(3,807)	(2,762)
	57,948	66,733

The Group's trading terms with its debtors are on credit. The credit periods range from 30 to 90 days during the year. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from the Group's associates of RMB11,166,000 (2019: Nil), which are repayable on credit terms similar to those offered to the major debtors of the Group.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2020 RMB'000	2019 RMB'000
Within 30 days	1,929	13,913
31 to 60 days	1,607	7,834
61 to 90 days	1,450	9,236
91 to 180 days	4,242	21,529
181 to 365 days	14,710	12,489
Over 365 days	34,010	1,732
	57,948	66,733

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

17. TRADE RECEIVABLES *(Continued)*

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020	2019
	RMB'000	RMB'000
At beginning of year	2,762	3,700
Impairment/(reversal of impairment), net <i>(note 6)</i>	1,045	(706)
Disposal of subsidiaries	–	(232)
At end of year	3,807	2,762

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 debtor segments with similar loss patterns by debtor type. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

As at 31 December 2020

	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Credit-impaired receivables	100%	1,354	(1,354)
Other trade receivables aged:			
Current and less than 12 months past due	1%–5%	30,191	(672)
Over 12 months past due	4%–12%	30,210	(1,781)
		61,755	(3,807)

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

17. TRADE RECEIVABLES *(Continued)*

As at 31 December 2019

	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Credit-impaired receivables	100%	1,035	(1,035)
Other trade receivables aged:			
Current and less than 12 months past due	1%–8%	66,820	(1,525)
Over 12 months past due	4%–13%	1,640	(202)
		69,495	(2,762)

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Prepayments	80,605	22,321
Deposits and other receivables	29,512	37,450
	110,117	59,771
Less: Portion classified as non-current assets	(47,886)	(5,660)
	62,231	54,111

The financial assets included in the above balances relate to deposits and receivables for which there was no recent history of default and past due amounts.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

The movements in the loss allowance for impairment of deposits and other receivables are as follows:

	2020	2019
	RMB'000	RMB'000
At beginning of year	661	–
Impairment (<i>note 6</i>)	–	661
At end of year	661	661

Expected credit losses on financial assets included in prepayments, deposits and other receivables are estimated by applying a loss rate approach with reference to historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2020 is 2% (2019: 2%).

19. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	RMB'000	RMB'000
Financial asset mandatorily classified at fair value through profit or loss:		
Unlisted investment fund, at fair value	13,672	–

Notes to the Consolidated Financial Statements (Continued)

31 December 2020

20. CASH AND CASH EQUIVALENTS

	2020 RMB'000	2019 RMB'000
Cash and bank balances	47,156	50,899

The Group's cash and cash equivalents are denominated in the following currencies:

	2020 RMB'000	2019 RMB'000
RMB	24,663	50,723
HK\$	22,493	66
US\$	–	110
	47,156	50,899

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 authorized 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.

21. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Within 1 month	359	5,661
1 to 2 months	533	3,751
2 to 3 months	507	2,805
Over 3 months	3,614	3,815
	5,013	16,032

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 90 days.

Notes to the Consolidated Financial Statements (Continued)

31 December 2020

22. CONTRACT LIABILITIES

The Group has recognized the following revenue-related contract liabilities, which represented the amounts received in respect of unsatisfied performance obligations as at the end of the reporting period and is expected to be recognized within one year:

	2020	2019
	RMB'000	RMB'000
Multi-player mobile game revenue	4,954	4,304

Deferred multi-player mobile game revenue primarily consists of the unamortized revenue from sales of in-game items and premium features for multi-player mobile games, where there is still an implied obligation to provide the services which enable the virtual item to be consumed by the players.

Movements in contract liabilities during the year are as follows:

	2020	2019
	RMB'000	RMB'000
At beginning of year	4,304	–
Additions	132,616	69,058
Revenue recognized during the year	(131,966)	(64,754)
At end of year	4,954	4,304

23. OTHER PAYABLES AND ACCRUALS

	2020	2019
	RMB'000	RMB'000
Other payables	12,550	10,645
Other tax payables	136	694
Accruals	1,266	1,092
Dividend payable	–	4,300
	13,952	16,731

Other payables are unsecured and non-interest-bearing and have an average term of 30 days.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

24. CONVERTIBLE BONDS

On 29 May 2018, the Company issued HK\$ denominated zero coupon convertible bonds with an aggregate principal amount of HK\$19,000,000 (equivalent to RMB15,505,000) (the "Convertible Bonds"). The Convertible Bonds would mature on 31 December 2019, such maturity date might be extended at the election of the bondholders to a date agreed upon by the Company and the bondholders. The Convertible Bonds were convertible at the option of the bondholders into 6,990 ordinary shares of the Company, which represented 4.9% of the Company's entire issued share capital immediately after the completion of the capitalization issue and global offering in connection with the Listing, at any time prior to the maturity date. The Convertible Bonds were redeemable at the option of the bondholders at the principal amount if (i) the Listing was rejected based on a written notice by the Securities and Futures Commission or the Stock Exchange; (ii) the Company confirmed by a written notice that it has aborted the Listing; or (iii) the Company failed to achieve a Listing by 30 November 2019.

During the year ended 31 December 2019, the bondholders extended the maturity date of the Convertible Bonds from 31 December 2019 to 30 June 2020 and the Convertible Bonds were redeemable at the option of the bondholders at the principal amount if the Company failed to achieve a Listing by 30 June 2020. All the other terms and conditions of the Convertible Bonds remained unchanged.

As the discounted present value of the cash flows under the new terms, including any fees paid and discounted using the original effective interest rate, was less than 10% different from the discounted present value of the remaining cash flows of the financial liabilities, the directors considered the extension of the maturity date was non-substantial modification that did not result in derecognition.

During the year ended 31 December 2020, the Convertible Bonds were converted into 6,990 ordinary shares of the Company with par value of HK\$0.01 upon the Listing.

Movements in convertible bonds during the year are as follows:

	2020	2019
	RMB'000	RMB'000
Liability component at beginning of year	16,578	15,757
Interest expense	116	1,039
Fair value gain on modification of convertible bonds	–	(403)
Conversion of convertible bonds	(16,917)	–
Exchange realignment	223	185
Liability component at end of year	–	16,578

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

25. AMOUNTS DUE FROM SHAREHOLDERS

The amounts due from shareholders were non-trade-related, unsecured, interest-free and settled prior to the Listing.

26. DEFERRED TAX

Deferred tax liabilities

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

	Withholding taxes
	RMB'000
At 1 January 2019	–
Deferred tax charged to the consolidated statement of profit or loss during the year	1,389
At 31 December 2019 and 1 January 2020	1,389
Deferred tax charged to the consolidated statement of profit or loss during the year	775
At 31 December 2020	2,164

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 the subsidiaries established in Mainland China to foreign shareholders in respect of earnings generated from 1 January 2008.

At 31 December 2020, the directors of the Company estimated that part of the retained earnings of the PRC subsidiaries would be retained in Mainland China for use in future operations and investments. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future to their foreign shareholders. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized was approximately RMB98,401,000 (2019: RMB79,396,000) at 31 December 2020.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

26. DEFERRED TAX *(Continued)*

Deferred tax assets

The Group had tax losses arising in Mainland China of RMB4,984,000 (2019: RMB4,837,000) that will expire in one to five years for offsetting against future taxable profits.

At the end of the reporting period, deferred tax assets in respect of these tax losses and other deductible temporary differences not recognized were as follows:

	2020 RMB'000	2019 RMB'000
Tax losses	859	826
Accruals	84	84
	943	910

Deferred tax assets have not been recognized in respect of the tax losses and deductible temporary differences as at the end of the reporting period as the directors consider it is currently not probable that future taxable profits will be available against which the tax losses and deductible temporary differences can be utilized.

27. ISSUED CAPITAL

	2020 RMB'000	2019 RMB'000
Authorized: 2,000,000,000 (2019: 39,000,000) ordinary shares of HK\$0.01 each	18,015	314
Issued and fully paid: 546,000,000 (2019: 100,000) ordinary shares of HK\$0.01 each	4,946	1

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

27. ISSUED CAPITAL *(Continued)*

A summary of movements in the Company's authorized and issued share capital during the year is as follows:

	<i>Notes</i>	Number of shares	Authorized/ issued capital HK\$'000	Equivalent to RMB RMB'000
Authorized ordinary shares of HK\$0.01 each:				
At 1 January 2019, 31 December 2019 and 1 January 2020		39,000,000	390	314
Increase of authorized capital	(a)	1,961,000,000	19,610	17,701
<hr/>				
At 31 December 2020		2,000,000,000	20,000	18,015
<hr/>				
Issued and fully paid ordinary shares of HK\$0.01 each:				
At 1 January 2019, 31 December 2019 and 1 January 2020		100,000	1	1
Issuance of ordinary shares upon conversion of Convertible Bonds	(b)	6,990	–	–
Capitalization issue	(c)	419,893,010	4,199	3,804
Issuance of ordinary shares upon initial public offering	(d)	126,000,000	1,260	1,141
<hr/>				
At 31 December 2020		546,000,000	5,460	4,946

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

27. ISSUED CAPITAL *(Continued)*

Notes:

- (a) Pursuant to the written resolutions of the shareholders of the Company passed on 21 February 2020, the authorized share capital of the Company was increased from HK\$390,000 divided into 39,000,000 shares with a par value of HK\$0.01 each to HK\$20,000,000 divided into 2,000,000,000 shares with a par value of HK\$0.01 each, by the creation of an additional 1,961,000,000 ordinary shares with a par value of HK\$0.01 each, ranking *pari passu* in all respects with the existing issued shares of the Company.
- (b) On 17 March 2020, 6,990 ordinary shares of the Company with par value of HK\$0.01 were issued upon the conversion of the Convertible Bonds with principal amounts totaling HK\$19,000,000 (equivalent to RMB15,505,000).
- (c) Pursuant to the written resolutions of the shareholders of the Company passed on 21 February 2020 and the minutes of the Board of Directors on the same day, 392,460,000 and 27,433,010 ordinary shares of HK\$0.01 each were allotted and issued, credited as fully paid at par, by way of capitalization from the share premium account to the holders of shares whose names appeared on the register of shareholders of the Company and to the convertible bondholders from the conversion of Convertible Bonds, respectively, on 17 March 2020.
- (d) In connection with the Company's initial public offering, 126,000,000 ordinary shares of HK\$0.01 each were issued at a price of HK\$1.35 per share for a total cash consideration, before share issue expenses, of approximately HK\$170,100,000 (equivalent to approximately RMB154,091,000). Dealing in the shares of the Company on the Stock Exchange commenced on 17 March 2020.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 71 of this report.

(i) Other reserve

The other reserve represents the nominal value of the paid-up capital of Family Doctor prior to the reorganization of the Group.

(ii) Statutory reserve funds

Pursuant to the relevant laws and regulations in Mainland China, a portion of the profits of the Company's subsidiaries which are established in the PRC has been transferred to the statutory reserve funds which are restricted to use.

(iii) Exchange fluctuation reserve

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

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

29. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2019, the Group disposed of its entire equity interests in 28 subsidiaries to Mr. Lu Jian, Mr. Liang Jun Hua and Ms. Su Shao Ping, the then shareholders of the Group, for considerations of RMB53,824,000.

	<i>Notes</i>	2019 RMB'000
<hr/>		
Net assets disposed of:		
Property, plant and equipment	13	32
Trade receivables		2,211
Prepayments and other receivables		54,423
Cash and cash equivalents		1,989
Trade payables		(2,430)
Other payables and accruals		(2,898)
<hr/>		
		53,327
Gains on disposal of subsidiaries	5	497
<hr/>		
Satisfied by cash		53,824
<hr/>		

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries was as follows:

	2019 RMB'000
<hr/>	
Cash consideration	53,824
Cash and bank balances disposed of	(1,989)
<hr/>	
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	51,835
<hr/>	

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

- (i) During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB2,151,000 (2019: Nil) and RMB2,151,000 (2019: Nil), respectively, in respect of lease arrangement for office premises.
- (ii) During the year, the amounts due from the then shareholders amounted to RMB13,613,000 were settled through the dividend declared by a subsidiary of the Group.

(b) Changes in liabilities arising from financing activities

	Lease liabilities RMB'000
At 1 January 2019, 31 December 2019 and 1 January 2020	–
New lease	2,151
Changes from financing cash flows	(366)
Interest expense	34
Termination of a lease	(1,819)
At 31 December 2020	–

(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	1,205	1,126
Within financing activities	366	–
	1,571	1,126

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

31. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	Notes	2020 RMB'000	2019 RMB'000
<i>A related company:</i>			
Financial advisory and company secretary service fee	(i)	1,091	42
<i>Associates:</i>			
Channel fee	(ii)	82	–
		1,173	42

(i) The service fee was charged by a related company based on terms agreed between the relevant parties. Mr. Tsui Wing Tak is a director and/or beneficial shareholder of the related company.

(ii) The channel fee was charged by the associates based on terms mutually agreed between the relevant parties.

- (b) During the year ended 31 December 2019, the Group disposed of 28 subsidiaries to three shareholders at a consideration of RMB53,824,000. Further details of the transaction are included in note 29 to the financial statements.

- (c) Outstanding balances with related parties:

Details of the Group's amount due from an associate and trade receivable balances with its associates as at the end of the reporting period are included in notes 15 and 17, respectively, to the financial statements.

- (d) **Compensation of key management personnel of the Group**

Remuneration for key management personnel of the Group, including directors' and chief executives' remuneration as disclosed in note 8 to the financial statements, is as follows:

	2020 RMB'000	2019 RMB'000
Short-term employee benefits	2,292	562
Post-employment benefits	20	148
Total compensation paid to key management personnel	2,312	710

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2020

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortized cost	Total
	Mandatorily designated as such RMB'000	Equity investments RMB'000	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income	–	3,600	–	3,600
Amount due from an associate	–	–	2,000	2,000
Trade receivables	–	–	57,948	57,948
Financial assets included in prepayments, deposits and other receivables	–	–	29,512	29,512
Financial asset at fair value through profit or loss	13,672	–	–	13,672
Cash and cash equivalents	–	–	47,156	47,156
	13,672	3,600	136,616	153,888

Financial liabilities

	Financial liabilities at amortized cost RMB'000
Trade payables	5,013
Financial liabilities included in other payables and accruals	4,525
	9,538

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

32. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2019

Financial assets

	Financial assets at amortized cost RMB'000
Trade receivables	66,733
Financial assets included in prepayments, deposits and other receivables	37,450
Due from shareholders	13,613
Cash and cash equivalents	50,899
	168,695

Financial liabilities

	Financial liabilities at amortized cost RMB'000
Trade payables	16,032
Financial liabilities included in other payables and accruals	3,646
Convertible bonds	16,578
	36,256

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	3,600	–	3,600	–
Financial asset at fair value through profit or loss	13,672	–	13,672	–
	17,272	–	17,272	–

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, and amounts due from shareholders approximate to their carrying amounts largely due to the short term maturities of these instruments or the effect of discounting is not material.

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

The fair value of the unlisted investment fund (classified as financial asset at fair value through profit or loss) is assessed to approximate the net asset value indicated on the net asset value statement issued by the investment fund manager, which takes into consideration the fair values of the underlying assets held under the investment.

The fair values of unlisted equity investments designated at fair value through other comprehensive income are estimated based on the recent market transaction price.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	–	3,600	–	3,600
Financial asset at fair value through profit or loss	–	13,672	–	13,672
	–	17,272	–	17,272

The Group did not have any financial assets measured at fair value as at 31 December 2019.

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 and 31 December 2019.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, and financial liabilities included in other payables and accruals, which mainly 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 the policies for managing each of these risks and they are summarized below.

Credit risk

The Group mainly transacts with creditworthy third parties. Receivable balances are monitored on an ongoing basis.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of the reporting period. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2020

	12-month ECLs	Lifetime ECLs	
	Stage 1	Simplified	Total
	RMB'000	approach	RMB'000
		RMB'000	RMB'000
Trade receivables*	–	61,755	61,755
Financial assets included in prepayments, deposits and other receivables			
— Normal **	30,173	–	30,173
Amount due from an associate			
— Not yet past due	2,000	–	2,000
Cash and cash equivalents			
— Not yet past due	47,156	–	47,156
	79,329	61,755	141,084

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging *(Continued)*

As at 31 December 2019

	12-month ECLs	Lifetime ECLs	
	Stage 1	Simplified	Total
	RMB'000	approach	RMB'000
	RMB'000	RMB'000	RMB'000
Trade receivables*	–	69,495	69,495
Financial assets included in prepayments, deposits and other receivables			
— Normal **	38,111	–	38,111
Due from shareholders			
— Not yet past due	13,613	–	13,613
Cash and cash equivalents			
— Not yet past due	50,899	–	50,899
	102,623	69,495	172,118

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

At the end of the reporting period, the Group had certain concentrations of credit risk as 45% (2019: 36%) and 70% (2019: 67%) of the Group’s trade receivables were due from the Group’s largest debtor and the three largest debtors.

Further quantitative data in respect of the Group’s exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group’s exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group monitors its risk to a shortage of funds by considering the maturities of both its financial liabilities and financial assets.

The Group’s objective is to maintain a balance between continuity of funding and flexibility. The Group aims to maintain sufficient cash and cash equivalents to meet its liquidity requirements.

Notes to the Consolidated Financial Statements *(Continued)*

31 December 2020

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2020

	On demand/ less than 1 year RMB'000
Trade payables	5,013
Financial liabilities included in other payables and accruals	4,525
	9,538

2019

	On demand/ less than 1 year RMB'000
Trade payables	16,032
Financial liabilities included in other payables and accruals	3,646
Convertible bonds	16,986
	36,664

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 continue to provide returns for shareholders and benefits for other stakeholders.

The Group actively and regularly reviews and manages its capital structure and strives to maintain a sound capital position, and makes adjustments to the capital structure 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. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

Capital of the Group comprises all components of shareholders' equity.

Notes to the Consolidated Financial Statements *(Continued)*

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35. 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:

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	_*	_*
Prepayments	39,976	-
Total non-current assets	39,976	-
CURRENT ASSETS		
Prepayments, deposits and other receivables	4,587	-
Financial asset at fair value through profit or loss	13,672	-
Due from subsidiaries	39,423	36,781
Cash and cash equivalents	17,403	136
Total current assets	75,085	36,917
CURRENT LIABILITIES		
Other payables and accruals	4,118	-
Convertible bonds	-	16,578
Due to shareholders	-	440
Due to a subsidiary	_*	_*
Total current liabilities	4,118	17,018
NET CURRENT ASSETS	70,967	19,899
Net assets	110,943	19,899
EQUITY		
Issued capital	4,946	1
Equity component of convertible bonds	-	1,128
Reserves (<i>note</i>)	105,997	18,770
Total equity	110,943	19,899

* Amounts less than RMB1,000

Notes to the Consolidated Financial Statements (Continued)

31 December 2020

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Exchange fluctuation reserve RMB'000	Retained profit/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2019	–	–	(569)	(569)
Profit for the year	–	–	19,296	19,296
Exchange differences on translation of foreign operations	–	43	–	43
At 31 December 2019 and 1 January 2020	–	43	18,727	18,770
Loss for the year	–	–	(22,573)	(22,573)
Conversion of convertible bonds	18,045	–	–	18,045
Issue of shares under initial public offering	149,146	–	–	149,146
Share issue expenses	(37,023)	–	–	(37,023)
Final 2019 dividend	–	–	(12,362)	(12,362)
Exchange differences on translation of foreign operations	–	(8,006)	–	(8,006)
At 31 December 2020	130,168	(7,963)	(16,208)	105,997

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 30 March 2021.

Definitions

“28 Subsidiaries”	28 directly or indirectly wholly-owned subsidiaries of Family Doctor which were no longer involved in our businesses, details of which are set out in the section headed “History, Reorganization and Group Structure” in the Prospectus
“AE Majoris Tech”	AE Majoris Tech Investment Company Limited, a company incorporated under the laws of the BVI on 14 May 2018 owned as to 86.67% by Mr. Tsui and 13.33% collectively by Mr. Jim Rogers and Ms. Paige Parker
“Android operating system”	a mobile operating system developed by Google, designed primarily for touchscreen mobile devices such as smartphones and tablets
“Annual General Meeting”	the annual general meeting of the Company proposed to be held on Thursday, 21 May 2020
“ARPPU”	monthly average gross receipts per paying user, calculated by dividing the average monthly gross receipts during a certain period by the MPUs during the same period
“Articles” or “Articles of Association”	the amended and restated articles of association of the Company adopted on 21 February 2020 with effect from March 17, 2020, as amended from time to time
“Audit Committee”	the audit committee of the Board
“Auditor”	Ernst & Young, the auditor of the Company
“Board” or “Board of Directors”	the board of Directors of the Company
“CAGR”	compound annual growth rate
“Capitalization Issue”	the capitalization of an amount standing to the credit of the share premium account of our Company by applying such sum in paying up in full 419,893,010 Shares for allotment and issue to our Shareholders as resolved by our Shareholders on 21 February 2020
“Catalog”	Guidelines Catalog of Industries of Foreign Investment (2017 Revision)* (外商投資產業指導目錄(2017年修訂))
“Cayman Islands”	the Cayman Islands
“Chairman”	the chairman of the Board
“China”, “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
“Company”, “the Company” or “our Company”	Jiu Zun Digital Interactive Entertainment Group Holdings Limited (九尊數字互娛集團控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands under the Cayman Islands Companies Law on 5 February 2018, whose Shares became listed on the Main Board of the Stock Exchange on the Listing Date
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“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
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto in the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely Guangzhou Jiu Zun and its subsidiaries
“Contractual Arrangement(s)”	the series of contractual arrangements entered into between WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements”
“Corporate Governance Code” or “CG Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)

Definitions *(Continued)*

“Director(s)” or “our Directors”	director(s) of our Company
“distribution channel provider”	in relation to mobile games, include operators of game website, search engine, telecommunication operator app store, manufacturer-specific app store, advertising alliance
“DW SAGA”	Captain Player Dragon Wing SAGA Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 7 May 2018 wholly owned by Mr. Xu
“Equity Pledge Agreement”	the equity pledge agreement entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Equity Pledge Agreement” in the Prospectus
“Executive Director(s)”	executive director(s) of the Company
“Family Doctor”	廣州家庭醫生信息技術有限公司 (Guangzhou Family Doctor Information Technology Company Limited*), a company established under the laws of the PRC with limited liability on 5 May 2011 and, by virtue of the Contractual Arrangements, accounted for as our subsidiary owned as to 93% by Guangzhou Jiu Zun and 7% by the late Mr. Chen
“Financial Statements”	audited consolidated financial statements of the Company for the year ended 31 December 2020
“FY2019”	the financial year ended 31 December 2019
“FY2020”	the financial year ended 31 December 2020
“Global Offering”	the offer of 12,600,000 Shares for subscription by the public in Hong Kong pursuant to the Hong Kong Public Offering and the offer of 113,400,000 Shares for subscription by institutional, professional, corporate and other investors pursuant to the International Offering (as respectively defined in the Prospectus)
“Group”, “the Group”, “we” or “us”	the Company and its subsidiaries, collectively
“Guangzhou Jiu Zun”	廣州市九尊數娛科技發展有限公司 (Guangzhou Jiu Zun Digital Entertainment Technology Development Company Limited*), a company established under the laws of the PRC with limited liability on 13 April 2018 and by virtue of the Contractual Arrangements, accounted for as our subsidiary owned as to 32.26%, 26.88%, 26.88%, 7.53% and 6.45% by Mr. Liang, Yujiang Yingming Investment, Yujiang Chenghe Investment, Mr. Xu and Ms. Zhang
“HKFRS”	Hong Kong Financial Reporting Standards
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Non-executive Director(s)”	independent non-executive Director(s) of the Company
“Intellectual Property Transfer and Licence Agreement”	the intellectual property transfer and licence agreement entered into between WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangement — Intellectual Property Transfer and Licence Agreement” in the Prospectus
“IPO”	initial public offering of the Shares on the Stock Exchange
“Irrevocable Option Agreement”	the irrevocable option agreement entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Irrevocable Option Agreement” in the Prospectus
“JLCY SAGA”	Captain Player JLCY SAGA Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 7 May 2018 wholly owned by Mr. Liang
“KPMG”	Klynveld Peat Marwick Goerdeler. A global network of professional firms providing Audit, Tax and Advisory services.

Definitions *(Continued)*

“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 Stock Exchange, i.e. 17 March 2020
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LJHJH SAGA”	Captain Player LJHJH SAGA Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 7 May 2018 owned as to 99.9% by Mr. Lu and 0.1% by Ms. He (being Mr. Lu’s spouse)
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
“Management Services Agreement”	the management services agreement entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Management Services Agreement” in the Prospectus
“Memorandum”	the amended and restated memorandum of association of our Company, conditionally adopted on 21 February 2020 which will take effect from the Listing Date and as amended from time to time
“MPU(s)”	monthly paying users
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Liang”	Mr. Liang Junhua (梁俊華), our executive Director and one of our Controlling Shareholders
“Mr. Lu”	Mr. Lu Jian (呂建), our Chairman and executive Director and one of our Controlling Shareholders, and the spouse of Ms. He
“Mr. Tsui”	Mr. Tsui Wing Tak (徐穎德), our non-executive Director and the company secretary of our Company
“Mr. Xu”	Mr. Xu Guangming (徐光明), the beneficial owner of 7.53% equity interest in Guangzhou Jiu Zun
“Ms. He”	Ms. He Junhong (何軍紅), the spouse of Mr. Lu and one of our Controlling Shareholders
“Ms. Su”	Ms. Su Shaoping (蘇少萍), our non-executive Director and one of our Controlling Shareholders
“Ms. Zhang”	Ms. Zhang Li (張麗), the beneficial owner of 6.45% equity interest in Guangzhou Jiu Zun
“Nomination Committee”	the nomination committee of the Board
“Non-executive Director(s)”	non-executive director(s) of the Company
“Pre-IPO Convertible Bonds”	the zero coupon convertible bonds issued by our Company in the aggregate principal amount of HK\$19,000,000 to AEM PIPO and AE Majoris Tech pursuant to the Subscription Agreement, as amended and supplemented by the Supplemental Deed
“Prospectus”	the prospectus issued by the Company dated February 27, 2020
“publishing platform”	comprise websites and apps for distribution of our digital media content operated by the largest telecommunication services provider, which can be accessed by a user account and the user account is registered by the email address with a mobile phone number registered with the largest telecommunication operator in the PRC
“R&D”	research and development
“Relevant Shareholders”	Mr. Liang, Yujiang Chenghe Investment, Yujiang Yingming Investment, Mr. Xu and Ms. Zhang, all of whom are registered shareholders of Guangzhou Jiu Zun
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC

Definitions *(Continued)*

“Reorganization”	the reorganization of our Group in preparation for the Listing, details of which are set out in the section headed “History, Reorganization and Group Structure — Corporate Reorganization” in the Prospectus
“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 Option Scheme”	the share option scheme conditionally adopted by our Company on 21 February 2020 for the benefit of our Directors, members of senior management, employees and other eligible participants defined in the scheme
“Share(s)”	ordinary share(s) in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in the Listing Rules
“USD” or “US\$”	United States dollars, the lawful currency of the United States
“virtual item(s)”	virtual item(s) which enhance the players’ gaming experience, by, for example, enhancing the powers, abilities or attractiveness
“Voting Rights Proxy Agreement and Powers of Attorney”	the voting rights proxy agreement and powers of attorney entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Voting Rights Proxy Agreement and Powers of Attorney” in the Prospectus
“WFOE”	廣州市九尊互娛科技發展有限公司 (Guangzhou Jiu Zun Interactive Entertainment Company Limited*), a limited liability company established under the laws of the PRC on 31 May 2018 with limited liability and an indirect wholly-owned subsidiary of our Company
“WW SAGA”	Captain Player WW SAGA Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 7 May 2018 wholly owned by Ms. Su
“Yingtian Jiancheng Investment”	鷹潭建成投資中心 (Yingtian Jiancheng Investment Center)*, a sole proprietorship established under the laws of the PRC with limited liability on 29 October 2015 wholly owned by Ms. Su
“Yingtian Jianhe Investment”	鷹潭建和投資中心 (Yingtian Jianhe Investment Center)*, a sole proprietorship established under the laws of the PRC with limited liability on 29 October 2015 wholly owned by Ms. Su
“Yingtian Jianming Investment”	鷹潭建明投資中心 (Yingtian Jianming Investment Center)*, a sole proprietorship established under the laws of the PRC with limited liability on 29 October 2015 wholly owned by Mr. Lu
“Yingtian Jianying Investment”	鷹潭建盈投資中心 (Yingtian Jianying Investment Center)*, a sole proprietorship established under the laws of the PRC with limited liability on 29 October 2015 wholly owned by Ms. He
“Yujiang Chenghe Investment”	余江縣成和投資中心(有限合夥) (Yujiang Chenghe Investment Center (Limited Partnership)*), a limited partnership established in the PRC on 16 November 2015 with 99.90% and 0.10% capital contribution by Yingtian Jiancheng Investment and Yingtian Jianhe Investment respectively
“Yujiang Yingming Investment”	余江縣盈明投資中心(有限合夥) (Yujiang Yingming Investment Center (Limited Partnership)*), a limited partnership established in the PRC on 16 November 2015 with 99.90% and 0.10% capital contribution by Yingtian Jianming Investment and Yingtian Jianying Investment respectively
“%”	per cent

* The English name is translated for reference purpose only in this Annual Report