祖龙娱乐
ARCHOSAUR GAMES

祖龙娱乐有限公司
Archosaur Games Inc.

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號：9990

2020
ANNUAL REPORT
年報

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Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

"Adoption Date"	5 February 2021, being the date on which the Share Option Scheme was adopted by the Shareholders at the extraordinary general meeting of the Company held on Friday, 5 February 2021
"Articles of Association"	the amended and restated memorandum and articles of association of the Company adopted on 24 June 2020 with effect from the Listing Date (as amended from time to time)
"Audit Committee"	the audit committee of the Company
"Beijing Fantasy Mermaid"	Beijing Fantasy Mermaid Technology Limited* (北京幻想美人魚科技有限公司), a company established under the laws of the PRC with limited liability on 9 September 2014, which is wholly-owned by Famous Game, our subsidiary and a WFOE
"Beijing Loong"	Beijing Loong Game Technology Limited* (北京祖龍遊科技有限公司), a company established under the laws of the PRC with limited liability on 9 September 2014 and is one of the Registered Shareholders
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"China" or "PRC"	the People's Republic of China, which unless otherwise stated, for the purpose of this annual report, excludes the Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Company"	Archosaur Games Inc. 祖龙娱乐有限公司, an exempted company incorporated under the laws of the Cayman Islands with limited liability whose Shares are listed and traded on the Main Board of the Stock Exchange (stock code: 9990)
"Consolidated Affiliated Entities"	the entities we control through the Contractual Arrangements, namely Tianjin Loong and its subsidiaries established from time to time
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Cresc Chorus"	Cresc Chorus Limited, a BVI business company incorporated under the laws of the BVI with limited liability and one of the controlling Shareholders of the Company
"Director(s)"	the director(s) of the Company
"Eligible Employee"	any full-time employee (excluding any director) of the Company and any subsidiary

"Eligible Participant(s)"	any Eligible Employee who may be invited by the Board to take up Options
"Equity Pledge Agreement"	the equity pledge agreement dated 10 March 2020 and entered into among Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders
"Exclusive Option Agreement"	the exclusive option agreement dated 10 March 2020 and entered into among Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders
"Exercise Price"	the price per Share at which a Grantee may subscribe for the Shares on the exercise of an Option
"Global Offering"	the initial public offering of the Shares for subscription by the public and the institutional, professional, corporate and other investors
"Grantee"	any Eligible Participant who accepts an Offer in accordance with the terms of the Share Option Scheme or (where the context so permits) his Personal Representative(s) who is/are entitled to any Option in consequence of the death of the original Grantee
"Group", "we" or "us"	the Company and all of its subsidiaries and companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of certain contractual arrangements, or, where the context so requires, in respect of the period before our Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
"HK$" and "HK cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huai'an Loong"	Huai'an Loong Technology Co., Ltd* (淮安祖龍科技有限公司), a company established under the laws of the PRC with limited liability on 19 August 2016, and by virtue of certain contractual arrangements, accounted for as our subsidiary
"IFRSs"	the International Financial Report Standards
"Linzhi Lichuang"	Linzhi Lichuang Information Technology Co., Ltd* (林芝利創信息技術有限公司), a company established under the laws of the PRC with limited liability and is one of the Registered Shareholders
"Listing"	listing of the Shares on the Main Board of the Stock Exchange

"Listing Date"	the date on which the Shares initially commenced their dealings on the Stock Exchange, i.e. 15 July 2020
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"LuckQ"	LuckQ Technology limited, a BVI business company incorporated under the laws of the BVI with limited liability and one of the controlling Shareholders of the Company
"MMORPG"	massively multiplayer online role-playing game, a genre of games that combine role-playing games and massively multiplayer online games in which a large number of players interact with one another within a virtual world
"Model Code"	the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules
"Ningbo Longren"	Ningbo Long Ren Enterprise Management Partnership (Limited Partnership)* (寧波龍仁企業管理合夥企業(有限合夥)), a limited partnership enterprise established under the laws of the PRC on 14 December 2015 and is one of the Registered Shareholders
"Ningbo Qiance"	Ningbo Meishan Bonded Port Qian Ce Enterprise Management Partnership (Limited Partnership)* (寧波梅山保税港區千策企業管理合夥企業(有限合夥)), a limited partnership enterprise established under the laws of the PRC on 28 November 2019 and is one of the Registered Shareholders
"Nomination Committee"	the nomination committee of the Company
"Offer"	an offer for the grant of an Option
"Offer Date"	the date, which must be a Business Day, on which an Offer is made to an Eligible Participant
"Option"	an option to subscribe for the Shares granted pursuant to the Share Option Scheme
"Option Period"	in respect of any particular Option, a period (which may not be later than ten (10) years from the Offer Date of that Option) to be determined and notified by the Directors to the Grantee thereof and, in the absence of such determination, from the Offer Date of such Option to the earlier of (i) the date on which such Option lapses; and (ii) ten (10) years from the Offer Date of that Option

"Perfect World"	Perfect World Co., Ltd.* (完美世界股份有限公司), a company established in the PRC, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002624)
"Perfect World Games"	Perfect World Games Co., Ltd.* (完美世界遊戲有限責任公司), a company established under the laws of the PRC with limited liability on 14 November 2008
"Perfect World Group"	Perfect World and/or its respective affiliate(s) and/or subsidiaries
"Perfect World Holding"	Perfect World Holding Group Co., Ltd.* (完美世界控股集團有限公司), a company established under the laws of the PRC with limited liability on 14 August 2013
"Perfect World Holding Group"	Perfect World Holding and/or its respective affiliate(s)
"Perfect World Interactive"	Perfect World Interactive Entertainment Co., Ltd., an exempted company incorporated under the laws of the Cayman Islands with limited liability and holds 16.99% of the Shares as at the date of this annual report
"Powers of Attorney"	the powers of attorney entered into among Beijing Fantasy Mermaid and each of the Registered Shareholders dated 10 March 2020
"Prospectus"	the prospectus of the Company dated 30 June 2020
"Registered Shareholder(s)"	Beijing Loong, Ningbo Longren, Ningbo Qiance, Perfect World Games and Linzhi Lichuang, as the registered shareholders of Tianjin Loong
"Remuneration Committee"	the remuneration committee of the Company
"Reporting Period"	the year ended 31 December 2020
"Risk Management Committee"	the risk management committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"RSU Scheme"	the restricted share unit scheme of our Company approved and adopted by the Board on 1 April 2020
"RSU(s)"	restricted share units granted pursuant to the RSU Scheme
"Series C-1 Preferred Share(s)"	has the meaning ascribed to it in Note 1.3 to the consolidated financial statements of this annual report
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)

"Share Option Scheme"	the share option scheme in its present form or as may be amended from time to time which was adopted by the Company on the Adoption Date
"Share(s)"	ordinary share(s) of US$0.00001 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	for the purpose of this annual report, has the meaning ascribed to it in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and includes companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of certain contractual arrangements
"substantial Shareholder(s)"	has the meaning ascribed to it in the Listing Rules
"Tencent"	Tencent Holdings Limited, an exempted company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700) and/or its subsidiaries, as the case may be and holds 12.88% of the Shares as at the date of this annual report
"Tencent Cloud"	Tencent Cloud Computing (Beijing) Company Limited* (騰訊雲計算（北京）有限責任公司), a company established in the PRC and a wholly-owned subsidiary of Tencent
"Termination Date"	close of business of the Company on the date which falls ten (10) years after the Adoption Date
"Tianjin Loong"	Tianjin Loong Technology Co., Ltd* (祖龍（天津）科技股份有限公司), a Company established under the laws of the PRC with limited liability on 15 April 2015, and by virtue of some contractual arrangements, accounted for as our subsidiary
"US$"	United States dollars, the lawful currency of the United States
"%"	per cent

* *For identification purpose only in this annual report*

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Qing *(Chairman and chief executive officer)*
Mr. Bai Wei

Non-executive Directors

Ms. Liu Ming
Mr. Lu Xiaoyin

Independent Non-executive Directors

Mr. Ge Xuan
Mr. Zhu Lin
Mr. Ding Zhiping

AUDIT COMMITTEE

Mr. Zhu Lin *(Chairman)*
Mr. Ge Xuan
Mr. Ding Zhiping

REMUNERATION COMMITTEE

Mr. Ge Xuan *(Chairman)*
Mr. Ding Zhiping
Mr. Li Qing

NOMINATION COMMITTEE

Mr. Li Qing *(Chairman)*
Mr. Ge Xuan
Mr. Ding Zhiping

RISK MANAGEMENT COMMITTEE

Mr. Ding Zhiping *(Chairman)*
Mr. Li Qing
Mr. Zhu Lin

JOINT COMPANY SECRETARIES

Ms. Hao Lili
Ms. Zhang Xiao

AUTHORIZED REPRESENTATIVES

Mr. Li Qing
Ms. Zhang Xiao

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
and Registered Public Interest Entity Auditor
22/F, Prince's Building
Central, Hong Kong

COMPLIANCE ADVISOR

Red Solar Capital Limited
Unit 402B, 4/F, China Insurance Group Building
No. 141 Des Voeux Road Central
Central, Hong Kong

LEGAL ADVISERS

As to Hong Kong laws
William Ji & Co. LLP
in Association with
Tian Yuan Law Firm Hong Kong Office
Suites 3304-3309
33/F, Jardine House
One Connaught Place
Central, Hong Kong

Clifford Chance
27/F, Jardine House
One Connaught Place
Hong Kong

Corporate Information

REGISTERED OFFICE IN CAYMAN ISLANDS

Harneys Fiduciary (Cayman) Limited
4/F, Harbour Place
103 South Church Street, P.O. Box 10240
Grand Cayman KY1-1002
Cayman Islands

HEADQUARTERS

4/F, No. 8 Hangxing Science Park
No. 11 HePingLi East Street
Dongcheng District, Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre
248 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Harneys Fiduciary (Cayman) Limited
4/F, Harbour Place
103 South Church Street, P.O. Box 10240
Grand Cayman KY1-1002
Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKS

China Merchants Bank Co., Ltd.
Tianjin Wuqing Branch
Basement Shop No. 695, Jiafeng Building
Yongyang West Road
Yangcun Town
Wuqing District, Tianjin
PRC

China Everbright Bank Co., Ltd.
Deshengmen Branch
11th Floor, Beiguang Plaza
23 Huangsi Street
Xicheng District, Beijing
PRC

Industrial Bank Co., Ltd.
Beijing Haidian Branch
1st Floor, Beijing Aerospace CPMIEC Building
Haidian District, Beijing
PRC

Standard Chartered Bank (Hong Kong) Limited
3/F, Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

COMPANY WEBSITE

www.zulong.com

STOCK CODE

9990

A summary of the results and of the assets and liabilities of the Company and its subsidiaries for the last four financial years, is set out below.

	For the year ended 31 December			
	2020	2019	2018	2017
	RMB million	RMB million	RMB million	RMB million
Revenue	**1,208.8**	1,067.2	870.1	1,309.2
Cost of revenue	**(282.9)**	(177.6)	(173.6)	(273.2)
Gross profit	**925.9**	889.6	696.5	1,036.0
Research and development expenses	**(540.4)**	(389.2)	(327.6)	(455.5)
Selling and marketing expenses	**(161.0)**	(114.5)	(93.7)	(230.8)
Administrative expenses	**(138.3)**	(53.0)	(39.2)	(100.2)
Net impairment losses on financial assets	**(1.8)**	(4.2)	0.3	0.7
Other income	**10.8**	14.1	17.0	35.6
Other (losses)/gains, net	**(12.1)**	24.1	57.7	(4.8)
Operating profit	**83.1**	366.9	311.0	281.0
Finance income	**12.4**	8.6	12.7	7.7
Finance costs	**(13.4)**	(17.9)	(5.8)	(1.0)
Finance (costs)/income, net	**(1.0)**	(9.3)	6.9	6.7
Fair value changes on convertible redeemable preferred shares	**(856.9)**	(212.5)	(381.3)	(383.6)
Share of results of investments accounted for using the equity method	**(0.5)**	–	–	–
(Loss)/Profit before income tax	**(775.3)**	145.1	(63.4)	(95.9)
Income tax credit/(expense)	**16.3**	(24.7)	(12.0)	(63.5)
(Loss)/Profit for the year	**(759.0)**	120.4	(75.4)	(159.4)
Non-IFRSs measure:				
Adjusted net profit(1)	**218.8**	354.5	310.9	423.2

Note:

(1) We define adjusted net profit as net (loss)/profit for the period adjusted by adding back fair value changes on convertible redeemable preferred shares, share-based compensation expenses, interest expenses accrued from redemption liability and listing expenses. We eliminate the impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-cash items or non-recurring expenses. In particular, fair value changes on convertible redeemable preferred shares, interest expenses accrued from redemption liability and listing expenses will not recur after the Listing. Fair value changes on convertible redeemable preferred shares will not recur after the Listing as convertible redeemable preferred shares have been converted into ordinary shares upon the Listing. Interest expenses accrued from redemption liability will not recur after the Listing because the redemption liability is in relation to a put option that was extinguished and ceased to have effect upon the Listing.

Financial Summary

	As at 31 December			
	2020	2019	2018	2017
	RMB million	RMB million	RMB million	RMB million
Assets, Liabilities and Equity				
Total assets	**4,001.8**	1,903.2	1,548.7	1,716.6
Total liabilities	**452.5**	1,733.1	1,495.8	1,363.3
Total equity	**3,549.3**	170.1	52.9	353.3

Dear Shareholders,

2020 was a year of milestone significance for the Group. On 15 July 2020, our initial public offering on the Stock Exchange was a success. As a public listed company, we have unveiled a new chapter of opportunities and challenges in the capital market. On behalf of the Board, I am pleased to present the annual report of the Group for the year ended 31 December 2020.

WHOLE-YEAR REVIEW AND OUTLOOK

Archosaur Games is a leading mobile gaming company in China with more than twenty years of research and development experience. Our mission is to be a top-class gaming company in the world, serving global game players by continuously creating industry-leading games of various genres with excellent online entertainment experience. As at 31 December 2020, we have launched 15 mobile games with over 70 regional versions available in more than 170 regional markets in 14 languages. The gross billings of six of them exceeded RMB100 million in the first month. The cumulative gross billings of five games exceeded RMB1 billion, among which three games exceeded RMB3 billion. The Group recorded total revenue of RMB1,208.8 million in 2020, representing a year-on-year increase of 13.3%, realizing a healthy and continuous revenue growth.

Maintenance of MMORPG advance to achieve breakthrough and iteration of SLG genres, thereby laying out a diversified pipeline of multiple game genres

In 2020, following our successful launch of Dragon Raja (龍族幻想) in mainland China, we had successfully launched four new regional versions of Dragon Raja (龍族幻想) in Europe and the Americas, Japan, Southeast Asia and Vietnam with outstanding results. In particular, the Japanese version became the first Chinese mobile MMORPG to top the Top Free Games Charts of both iOS App Store and Google Play in Japan. Once again, this reflected our core competitiveness in the MMORPG genre. In the future, we will continue to provide mobile MMORPG with multiple styles, including OPEN WORLD（開放大世界）and turn-based mobile MMORPG. Launched by the Group in October 2020, Under the Firmament (鴻圖之下) was our first attempt to make inroads into the new genre of SLG from our MMORPG products with competitive advantage. The successful launch of Under the Firmament (鴻圖之下) made possible an important move to expand our SLG genre, with the unanimous endorsement and acclaims of the gaming industry. In the future, the Group plans to maintain the core competitive edge of our MMORPG products on this foundation, upon which we will enrich and extend the array of products and genres, including SLG, female-oriented and other genres to facilitate our sustainable launch of high-quality games.

Continuous research and development input to build a solid foundation for future products development

The Group counts on its industry-leading research and development capabilities as a driving force to propel us forward, along with constant technology upgrades, continuous enrichment and expansion of product genres and our core advantage of integrating operation and research and development to enhance our industry reputation. In 2020, 458 new employees joined the Group, approximately 85% of them being research and development personnel, and our total full-time employees increased from approximately 900 in 2019 to approximately 1,200. The employees in research and development center accounted for approximately 87% of the total employees as at 31 December 2020. In 2021, the Group will continue to enlarge inputs on research and development personnel, which includes offering competitive salaries and different forms of employee incentives, in order to recruit and retain research and development personnel as the foundation for expanding our professional team steadily and continually. In terms of the regional layout of research and development talents, aside from Beijing, Chengdu and Changchun, a new research and development center was established in Shanghai at the end of 2020, encompassing the eastern part of China as a core city and the peripheral regions of Jiangsu, Zhejiang and Anhui, to attract high-end gaming talents in order to further reinforce our gaming research and development strengths. Presently, Beijing is the epicenter of the Group's regional spread of research and development talents. We will gradually expand our recruitment to various parts of China and will continuously do so to absorb high-end technical personnel. On the whole, our constant inputs in research and development will provide us with a strong manpower pool for our new business endeavours. In 2020, the successful publishing of new game genre like the SLG product, Under the Firmament (鴻圖之下), could be credited to our sustainable research and development inputs, along with efforts to raise our research and development capabilities, deepen technology innovations and extension of our line of product genres. In the future, we will inject fresh energy and dynamism into the development of other gaming genres and products, including the mobile MMORPG, Noah's Heart (諾亞之心) characterized by OPEN WORLD (開放大世界) with a "Seamless Sphere-Shaped Map" ("球形無縫大地圖") gaming experience as well as female-oriented products, which are noted for fashion diversity and fashionwear by veteran artist to perfection. We expect to launch three new games in 2021, including The New World (夢想新大陸) which was launched in January 2021, covering the genres of MMORPG and SLG. We have the confidence and stamina to build our next-generation games pipeline with constant efforts to boost our research and development strengths.

Strong IP creation and operating strengths to attract international IPs and enhance global presence

We rely on strong IP creation and operational capabilities to strategically support our future layout, actively accelerate expanding our IP reserve and attract world-renowned IPs from international IP holders. As at 31 December 2020, the Group had seven original IP mobile games and four licensed IP mobile games in operation. Reinforcing the original IPs, new game products such as The New World (夢想新大陸) that was launched in early 2021 and Noah's Heart (諾亞之心), which is scheduled to be launched in the near future highlight our continuous exploring in original IPs. Deepening our involvement in authorized IPs, we have taken a further step to establish a longer-term collaborative relationship with the IP holder of Dragon Raja (龍族幻想), which has been widely endorsed and supported by global game players since it was launched, and we have obtained exclusive right to adapt the entire dragon product series for the production of MMORPGs for a seven-year period. With regard to attracting international IPs, we will collaborate with an entertainment company of blockbusters with a box office record of over US$1.5 billion to launch a new mobile MMORPG. The production and development of this game is in steady progress. Without doubt, it is expected to mark another important milestone in our global market drive and significantly accelerate the global presence.

Positive outcomes of self-publishing and continuous layout and expansion based on the integrated mode of research and operation

One of our key strategies is to integrate research and operation as one into our self-publishing system to support global publishing in a swift, viral and expansionary manner. Dragon Raja (龍族幻想) and World of Kings (萬王之王) were among the products we have self-published overseas with outstanding results. More specifically, Dragon Raja (龍族幻想) has achieved remarkable results and World of Kings (萬王之王) has a stable long-term performance in the genre of MMORPG of the markets outside of mainland China. In 2020, we won the Top Publisher Awards (年度中國廠商出海收入飛躍獎) issued by App Annie. In addition, we are still strengthening our self-publishing system domestically with a view to form a team with excellent capabilities for self-publishing home and abroad, and striving to achieve great results in 2021. Currently, the Group continuously undertakes the effort to expand and improve the self-publishing team and its publishing capabilities in order to provide a succession of high-quality products to game players from different countries and regions and build the brand of Archosaur Games globally, so as to build our widespread reputation in the global market.

Increased overseas revenue ratio from games to drive our global strategy continually

The overseas revenue ratio of our games continued to increase in 2020. Compared with 2019, the revenue of our games generated from overseas in 2020 increased by 129.1%. With regard to revenue segment by geography, our overseas revenue accounted for 65.2% of our total revenue for the year 2020. Our overseas revenue have increased by a large margin, which greatly bolsters our confidence in overseas self-publishing while accelerating our pace of global business. The Europe and the Americas, Japan and Southeast Asia versions of Dragon Raja (龍族幻想) and the Europe and the Americas version of World of Kings (萬王之王) in 3D have contributed significantly to our overseas revenue. It is noteworthy that, aside from the traditional overseas regions like Hong Kong, Macau, Taiwan, Southeast Asia and South Korea where our games are published, we have also entered markets with higher barriers such as Europe, the Americas and Japan. Through high-quality products such as Dragon Raja (龍族幻想) and World of Kings (萬王之王), we have successfully made it to these more challenging markets that come with a higher revenue potential. Continual increases in our overseas revenue are attributable to the on-screen visual quality of our next-generation games that compares well to that of console gaming product in one respect. In the meanwhile, our research and development team have customized gaming products according to regional variations to make them a success in overseas markets. Our operational team has also continually raised our self-publishing and long-term operating capacities. Given the above-mentioned core advantages, we have strengthened our influence in the overseas gaming market and we will be more proactive in this area in 2021.

Continually deepening advantages derived from Unreal Engine 4 to move gradually towards Unreal Engine 5

Following our major success with our Unreal Engine 4 collaboration initiative, we have reached a more long-term and indepth partnership agreement with the game engine developer Epic Games on the issue of Unreal Engine 5 authorization. Through this partnership renewal, we have become one of the earliest game developers allowed to research and utilize Unreal Engine 5 and extend application of the game engine to our multiple game products. As a cutting-edge game engine, Unreal Engine 5 has greatly facilitated workflow excellence to achieve technology and product breakthroughs. Based on the successful experience of using Unreal Engine 4 to develop mega mobile games, we will deploy frontier technologies like Unreal Engine 5 to conduct gaming research and development as part of strategic planning going forward. We have the confidence to draw on the new technology to achieve innovations, explore and develop high-quality, cross-platform new products, and implement major breakthroughs in technology and product offerings.

Deepening up-and-downstream collaboration across the industry value chain

We will continue to deepen our strategic partnerships with businesses both up-and-downstream like Epic Games and Tencent, closely monitor and evaluate market feedback for gaming products and conduct timely updates and improvement measures on games as we maximise efforts to ensure success for our game products. To achieve higher cost efficiency and harness more advanced technologies, we have, as earlier mentioned, to establish a deeper partnership with Epic Games on Unreal Engine 5 usage. As for game publishing in collaboration with third parties, we have entrusted Tencent in mainland China with the exclusive publishing of Under the Firmament (鴻圖之下) launched in 2020 and The New World (夢想新大陸) launched in January 2021. Tencent has been given exclusive publishing rights, including the future launch of Noah's Heart (諾亞之心) in mainland China. In addition, we have also formed a partnership with Tencent on mobile MMORPG projects developed from international IP agreements as mentioned above for global publishing. As one of the world's large-scale gaming companies, Tencent holds the capacity to integrate game players' resource globally. We believe the product will benefit from the combined advantages of "IP-R&D-Publishing" to become an influential game to offer global players an excellent online gaming experience.

Future opportunities and challenges

Since the outbreak of coronavirus disease ("COVID-19") in different parts of the world in early 2020, the Group has done its best in pandemic prevention and control, actively fulfilled its social responsibilities and strengthened cost control with improved management of receivables. We have worked assiduously to minimize impact of the pandemic on the Group. We have also contributed to the fight against the disease by administering stringent control and regulation measures to safeguard employee health and safety.

2020 was a critical year that led the gaming industry to the next decade of developments, as new technologies like 5G and Unreal Engine 5 will subject it to continuous upgrades and changes. Faced with the new opportunities and challenges, we will invest more resources in talents grooming and management, research and development and improvement of operational capabilities, with a focus on the Group's long-term value growth rather than the pursuit of profit increase over the short haul.

The positive development trend in the mobile game industry will remain unchanged. We are optimistic towards our new strategic layout for the future and our long-term value growth. We also believe that, under the leadership of the Board and collective hard work of our management team and employees, we will be able to maintain a competitive edge in research and development and operations and create value for investors. Once again, I would like to thank our investors and people from all sectors for the enormous support and assistance they have given us. I hope that my message here could let everybody understand the Group better and enable them to make their independent investment decisions.

Li Qing
Chairman of the Board

Archosaur Games Inc.

Financial Performance Highlights

	For the year ended 31 December		
	2020	2019	Change
	RMB million	RMB million	%
Revenue	**1,208.8**	1,067.2	13.3%
Cost of revenue	**(282.9)**	(177.6)	59.3%
Gross profit	**925.9**	889.6	4.1%
Research and development expenses	**(540.4)**	(389.2)	38.8%
Selling and marketing expenses	**(161.0)**	(114.5)	40.6%
Administrative expenses	**(138.3)**	(53.0)	160.9%
Net impairment losses on financial assets	**(1.8)**	(4.2)	(57.1)%
Other income	**10.8**	14.1	(23.4)%
Other (losses)/gains, net	**(12.1)**	24.1	(150.2)%
Operating profit	**83.1**	366.9	(77.4)%
Finance income	**12.4**	8.6	44.2%
Finance costs	**(13.4)**	(17.9)	(25.1)%
Finance costs, net	**(1.0)**	(9.3)	(89.2)%
Fair value changes on convertible redeemable preferred shares	**(856.9)**	(212.5)	303.2%
Share of results of investments accounted for using the equity method	**(0.5)**	–	N/A
(Loss)/Profit before income tax	**(775.3)**	145.1	(634.3)%
Income tax credit/(expense)	**16.3**	(24.7)	(166.0)%
(Loss)/Profit for the year	**(759.0)**	120.4	(730.4)%
Non-IFRSs measure:			
Adjusted net profit(1)	**218.8**	354.5	(38.3)%

Note:

(1) We define adjusted net profit as net (loss)/profit for the period adjusted by adding back fair value changes on convertible redeemable preferred shares, share-based compensation expenses, interest expenses accrued from redemption liability and listing expenses. We eliminate the impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-cash items or non-recurring expenses. In particular, fair value changes on convertible redeemable preferred shares, interest expenses accrued from redemption liability and listing expenses will not recur after the Listing. Fair value changes on convertible redeemable preferred shares will not recur after the Listing as convertible redeemable preferred shares have been converted into ordinary shares upon the Listing. Interest expenses accrued from redemption liability will not recur after the Listing because the redemption liability is in relation to a put option that was extinguished and ceased to have effect upon the Listing.

BUSINESS REVIEW

Our mission is to be a top-class gaming company in the world, serving global game players by continuously creating industry-leading games of various genres with excellent online entertainment experience.

We are a pioneer in China's mobile game industry focusing on developing high-quality mobile MMORPGs, SLGs and other genres, with proven capabilities in developing high-quality mobile games with excellent market reception.

Our Existing Games

We mainly focus on the development for mobile MMORPG, SLG and other genres, and offer a mature and strategically selective portfolio of top-rated mobile games with excellent market reception globally. As at 31 December 2020, we had launched 15 mobile games with over 70 regional versions in 14 languages available in more than 170 regional markets, such as Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas.

In 2020, we launched two games based on licensed IP and original IP, Dragon Raja (龍族幻想) international version and Under the Firmament（鴻圖之下）, covering the genres of MMORPG and SLG. The games have achieved remarkable results since they were launched.

Dragon Raja (龍族幻想), a next generation real 3D mobile MMORPG powered by Unreal Engine 4, has been launched in Europe and the Americas, Southeast Asia and Vietnam through self-publishing in 2020, after launched in mainland China in 2019. As at 31 December 2020, the global cumulative gross billings generated by Dragon Raja (龍族幻想) had exceeded RMB3 billion and the cumulative number of globally registered players had surpassed 32 million, although being launched for no longer than 18 months. In both the developed gaming markets overseas and traditional oversea markets for Chinese games, we have achieved outstanding self-publishing results. With regard to overseas publishing, Dragon Raja (龍族幻想) became the first Chinese mobile MMORPG to top the Top Free Games Charts of both iOS App Store and Google Play in Japan through third-party publishing by Tencent.

Under the Firmament (鴻圖之下), the first SLG grand strategy mobile game powered by Unreal Engine 4, won the only UE Best Chinese Game of the Year (虛幻引擎中國年度最佳遊戲作品) award at UOD (Unreal Open Day) in November 2020. Under the Firmament (鴻圖之下) was launched in the S2 and S3 seasons successively, with continuous improvements made in quality, gaming method, scenario and interactiveness, and received acclaim from players. Tencent published on our behalf the mainland China version exclusively and on the first day of launch, the game topped the Top Free Games Chart and maintained top ten among Top Grossing Games Chart for eight consecutive days after launch. The game will also be launched in countries and regions including Japan, Southeast Asia, South Korea, Europe and the Americas by primarily our self-publishing team in 2021.

During the period from 1 January 2021 to the date of this annual report, we launched a new game, The New World (夢想新大陸), which is the first turn-based mobile MMORPG developed by Unreal Engine 4. On the first day of launch, the game topped the Top Free Games Chart of iOS App Store in mainland China. With the use of Unreal Engine 4, the game creates unique scenes including islands, forests and undersea views, deploying high-light direction modification technology to enable PBR (Physically-Based Rendering) to spotlight the turn-based aerial perspective to heighten the material texture better.

Our existing games achieved a number of "firsts" in China's mobile game industry: Loong Craft (六龍爭霸／六龍御天) as one of the first real 3D mobile MMORPG grand strategy wargames, Dragon Raja (龍族幻想) as China's first next generation real 3D mobile MMORPG powered by Unreal Engine 4, and Fantasy Zhuxian (夢幻誅仙) as one of the pioneering real 3D turn-based mobile MMORPGs. Under the Firmament (鴻圖之下) is the first mobile SLG developed by Unreal Engine 4. For the year ended 31 December 2020, we have kept a sustainable growth or performance for the games we are operating. For example, as at the end of 2020, we have three games with total gross billings of more than RMB3 billion, 5 games with total gross billings of more than RMB1 billion, and 6 games with first-month gross billings of more than RMB100 million (including Under the Firmament (鴻圖之下)). Furthermore, we will also publish Under the Firmament（鴻圖之下）in markets outside of mainland China including Japan, Southeast Asia, Hong Kong, Macau and Taiwan, South Korea, Europe and the Americas.

Our Game Pipeline

To build up a diversified game portfolio across a wide range of genres, six mobile games are expected to be launched domestically and globally over the period from 2021 to 2022, covering the genres of MMORPG, SLG and others (excluding a turn-based mobile MMORPG, The New World (夢想新大陸) which was launched in January 2021). As at 31 December 2020, the table below sets out certain information regarding our new games which are expected to be launched for the periods indicated, including title, genre, IP source, development stage, expected launch date and major markets.

Title[1]	Mobile game genre[1]	IP source[1]	Development stage as at 31 December 2020[1]	Expected launch year[1]	Major markets[1]
2021					
Noah's Heart （諾亞之心）	MMORPG	Original IP	Game Production	2021	Worldwide
Project C[2]	SLG	–[2]	Game Production	2021	Worldwide
2022					
Project A[2][3]	Others	Original IP	Game Production	2022	Worldwide
Sango Heroes （三國群英傳）	SLG	Licensed IP	Game Proposal	2022	Worldwide
Project B[2]	MMORPG	Licensed IP	Game Production	2022	Worldwide
Project D[2]	MMORPG	–[2]	Game Proposal	2022	Worldwide

Notes:

(1) The game pipeline is indicative as at 31 December 2020. The title, genre, expected launch date, major markets and other information of each game in the pipeline may be subject to further changes according to their respective development and pre-approval status.

(2) The game title or IP status, as applicable, of the respective game is pending.

(3) We plan to integrate female-oriented game design in the game.

We recorded revenue of RMB1,208.8 million for the year ended 31 December 2020, representing an increase of 13.3% as compared with RMB1,067.2 million for the year ended 31 December 2019, which was primarily attributable to an increase in revenue generated from integrated game publishing and operation.

Impact of COVID-19

Since the worldwide outbreak of COVID-19 in early 2020, a series of precautionary and control measures have been issued and continued to be implemented across China and other countries in the world.

The foremost priority for the Group is to provide our employees with a safe and healthy working environment during the COVID-19 pandemic, maintaining a firm grasp of all applicable obligations (whether mandated or voluntary). The Group has adopted precautionary measures including online meetings and work from home for our staff to minimise the risk of transmission of COVID-19.

Due to the nature of the gaming industry and benefiting from the Company's sufficient hygiene measures and stable relationships with our suppliers and customers, the COVID-19 outbreak did not have any material adverse impact on our business operations, financial performance or working capital of our Company.

FINANCIAL REVIEW

Revenue

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

	For the year ended 31 December			
	2020 (RMB million)	**(% of total revenue)**	2019 (RMB million)	(% of total revenue)
Development and licensing	**597.3**	**49.4%**	821.5	77.0%
– Revenue share	**563.7**	**46.6%**	739.8	69.3%
– Non-refundable fixed licensing fees	**33.6**	**2.8%**	81.7	7.7%
Integrated game publishing and operation	**611.5**	**50.6%**	245.7	23.0%
Total	**1,208.8**	**100.0%**	1,067.2	100.0%

For the year ended 31 December 2020, our revenue from development and licensing was RMB597.3 million, representing a decrease of 27.3% from RMB821.5 million for the year ended 31 December 2019, and our revenue from integrated game publishing and operation was RMB611.5 million, representing an increase of 148.9% from RMB245.7 million for the year ended 31 December 2019.

The following table sets forth the breakdown of our revenue segment by geography for the years indicated:

	For the year ended 31 December			
	2020		2019	
	(RMB million)	**(% of total revenue)**	(RMB million)	(% of total revenue)
Domestic	**420.5**	**34.8%**	723.1	67.8%
Overseas	**788.3**	**65.2%**	344.1	32.2%
Total	**1,208.8**	**100.0%**	1,067.2	100.0%

For the year ended 31 December 2020, our revenue generated from markets outside mainland China accounted for 65.2% of our total revenue, representing an increase of 129.1%, which is in line with our strategy and aim of introducing excellent games to more people across different regions. For domestic market, the decrease in our revenue was primarily due to less revenue generated from new games which have unexpected delay in the launch date(s).

COST OF REVENUE

The following table sets forth a breakdown of our cost of revenue by nature in absolute amounts and as percentages of our cost of revenue for the years indicated:

	For the year ended 31 December			
	2020		2019	
	(RMB million)	**(%)**	(RMB million)	(%)
Commissions charged by distribution channels and payment channels	**183.8**	**65.0%**	83.8	47.2%
Revenue share to IP holders	**62.8**	**22.2%**	70.1	39.5%
Bandwidth and servers custody fee	**17.9**	**6.3%**	7.6	4.3%
Employee benefit expenses	**7.2**	**2.5%**	6.0	3.4%
Depreciation and amortization charges	**7.6**	**2.7%**	7.3	4.1%
Others	**3.6**	**1.3%**	2.8	1.5%
Total	**282.9**	**100.0%**	177.6	100.0%

Our cost of revenue primarily consists of (i) commissions charged by distribution channels and payment channels, and (ii) revenue share to IP holders. Our cost of revenue increased to RMB282.9 million for the year ended 31 December 2020 as compared with RMB177.6 million for the year ended 31 December 2019, which was mainly attributable to an increase in commissions charged by distribution channels and payment channels and an increase in bandwidth and servers custody fee. The growing trend was in line with the increase in revenue generated from integrated game publishing and operation business.

GROSS PROFIT AND GROSS PROFIT MARGIN

For the year ended 31 December 2020, the gross profit of the Group increased by 4.1% to RMB925.9 million as compared with RMB889.6 million for the year ended 31 December 2019, maintaining a stable performance. The gross profit margin of the Group decreased to 76.6% for the year ended 31 December 2020 from 83.4% for the year ended 31 December 2019, mainly attributable to an increase in revenue generated from integrated game publishing and operation business as a percentage to our total revenue, taking into consideration that cost associated with integrated game publishing and operation business as a percentage to revenue from integrated game publishing and operation business is generally higher than cost associated with development and licensing business as a percentage to revenue from development and licensing business.

RESEARCH AND DEVELOPMENT EXPENSES

Our research and development expenses primarily consist of (i) employee benefit expenses; (ii) outsourced technical services; and (iii) depreciation and amortization charges. For the year ended 31 December 2020, our research and development expenses increased by 38.8% to RMB540.4 million as compared with RMB389.2 million for the year ended 31 December 2019, mainly attributable to an increase in employee benefit expenses, including share-based compensation expenses, and an increase in outsourced technical services to satisfy our business expansion.

SELLING AND MARKETING EXPENSES

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses; and (ii) employee benefit expenses. For the year ended 31 December 2020, our selling and marketing expenses increased by 40.6% to RMB161.0 million as compared with RMB114.5 million for the year ended 31 December 2019, mainly attributable to an increase in promotion and advertising expenses.

ADMINISTRATIVE EXPENSES

Our administrative expenses primarily consist of (i) employee benefit expenses; (ii) share-based compensation costs arising from the re-designation of ordinary shares into Series C-1 Preferred Shares; (iii) listing expenses; and (iv) other professional consulting fees. For the year ended 31 December 2020, our administrative expenses increased by 160.9% to RMB138.3 million as compared with RMB53.0 million for the year ended 31 December 2019, mainly attributable to (i) the occurrence of share-based compensation costs arising from the re-designation of ordinary shares into Series C-1 Preferred Shares and listing expenses, which are either non-cash items or non-recurring in nature; and (ii) an increase in employee benefit expenses, including share-based compensation expenses.

OTHER INCOME

For the year ended 31 December 2020, our other income decreased by 23.4% to RMB10.8 million as compared with RMB14.1 million for the year ended 31 December 2019, due to a decrease in government grants.

FINANCE COSTS, NET

Finance income represents interest income from bank deposits, including bank balance and term deposits. Finance costs primarily consist of interest expenses accrued from our redemption liability and lease liabilities. For the year ended 31 December 2020, our net finance costs decreased by 89.2% to RMB1.0 million as compared with RMB9.3 million for the year ended 31 December 2019, mainly attributable to an increase in interest income from bank balance and a decrease in interest expenses accrued from our redemption liability.

OTHER (LOSSES)/GAINS, NET

Our other (losses)/gains primarily consist of (i) gains on financial assets at fair value through profit or loss; and (ii) net foreign exchange (losses)/gains. For the year ended 31 December 2020, our net other (losses)/gains decreased by 150.2% to net other losses of RMB12.1 million as compared with net other gains of RMB24.1 million for the year ended 31 December 2019, mainly attributable to foreign exchange losses.

INCOME TAX CREDIT/(EXPENSE)

Our income tax credit/(expense) consists of current income tax and deferred income tax, and we incurred total income tax credit of RMB16.3 million for the year ended 31 December 2020, compared with income tax expense of RMB24.7 million for the year ended 31 December 2019. The decrease was mainly due to a reversal of current income tax of RMB11.8 million from Huai'an Loong, one of the Company's subsidiaries. Huai'an Loong qualified as a High and New Technology Enterprise for a three-year period under the Enterprise Income Tax (EIT) Law since 2018 and was entitled to a preferential income tax rate of 15%. Under the Announcement No. 29 of 2020 issued by Ministry of Finance and State Administration of Taxation on 29 May 2020, Huai'an Loong qualified as a "Software Enterprise" for 2019 and 2020. Accordingly, Huai'an Loong is entitled to a two-year EIT exemption period, followed by a three-year period with 50% reduction in the applicable income tax rate, commencing from the first year of profitable operation after offsetting tax losses generating from prior years. The first year of EIT exemption for Huai'an Loong was 2019. As a result, a reversal of current income tax of RMB11.8 million to reflect the first year of EIT exemption of Software Enterprise was recorded in the consolidated statement of profit or loss for the year ended 31 December 2020.

ADJUSTED NET PROFIT

The adjusted net profit for the year ended 31 December 2020 decreased by 38.3% to RMB218.8 million as compared with RMB354.5 million for the year ended 31 December 2019. Such decrease was primarily attributable to an increase in research and development expenses due to the Company's endeavor to continuously develop high-quality games for the benefit of the long-term business expansion by committing significant investments in talent resources, research and development, game technology and network infrastructure to enhancing the development capacities of the Group. Due to the fair value changes on convertible redeemable preferred shares based on the application of IFRSs, loss was recorded for the year ended 31 December 2020. The Company believes that adjusted net profit for the year ended 31 December 2020, as compared with the loss recorded by the Group based on the application of IFRSs, provides more useful information to Shareholders and potential investors in understanding and evaluating the operating results of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

We have historically funded our cash requirements principally from cash generated from operations, and to a lesser extent, equity financing. We adopt a prudent treasury management policy to ensure that our Group maintains a healthy financial position. Taking into account the financial resources available to the Group, including cash and cash equivalents on hand, cash generated from operations and available facilities of the Group, and the net proceeds from the issuance of ordinary shares relating to the initial public offering, and after diligent and careful investigation, the Directors are of the view that the Group has sufficient working capital required for the Group's operations at present.

As at 31 December 2020, the Group has net current assets of RMB3,393.7 million and term deposits, cash and cash equivalents of RMB3,134.3 million, which were denominated in US$, HK$ and RMB.

As at 31 December 2020, the Group's total equity attributable to owners of the Company amounted to RMB3,549.3 million, compared with RMB170.1 million as at 31 December 2019, representing an increase of 1,986.6%. The increase was mainly attributable to (i) issuance of ordinary shares relating to the initial public offering and (ii) the conversion of convertible redeemable preferred shares and redemption liability into ordinary shares upon the Listing. And the Group's total debt amounted to RMB452.5 million, compared with RMB1,733.1 million as at 31 December 2019, representing a decrease of 73.9%. The decrease was mainly attributable to the conversion of convertible redeemable preferred shares into ordinary shares upon the Listing.

The following table sets forth our cash flows for the years indicated:

	For the year ended 31 December		
	2020	2019	Change
	(RMB million)	(RMB million)	(%)
Net cash generated from operating activities	**456.8**	100.6	354.1%
Net cash generated from investing activities	**153.6**	58.4	163.0%
Net cash generated from/(used in) financing activities	**1,901.5**	(24.1)	(7,990.0)%
Net increase in cash and cash equivalents	**2,511.9**	134.9	1,762.0%
Cash and cash equivalents at the beginning of the year	**728.3**	588.4	23.8%
Exchange (losses)/gains on cash and cash equivalents	**(184.5)**	5.0	(3,790.0)%
Cash and cash equivalents at the end of the year	**3,055.7**	728.3	319.6%

Operating Activities

For the year ended 31 December 2020, net cash generated from operating activities was RMB456.8 million, compared with RMB100.6 million for the year ended 31 December 2019, representing an increase of 354.1%. The increase was mainly attributable to the subsequent collection of trade receivables as at 31 December 2019.

Investing Activities

For the year ended 31 December 2020, net cash generated from investing activities was RMB153.6 million, compared with RMB58.4 million for the year ended 31 December 2019, representing an increase of 163.0%. The increase was mainly attributable to proceeds from maturity of term deposits purchased during the year of 2019.

Financing Activities

For the year ended 31 December 2020, net cash generated from financing activities was RMB1,901.5 million, compared with RMB24.1 million used in financing activities for the year ended 31 December 2019, representing an increase of 7,990.0%. The increase was mainly attributable to proceeds from issuance of ordinary shares relating to the initial public offering during 2020.

GEARING RATIO

As at 31 December 2020, our gearing ratio, which is calculated as total debt divided by total assets, was 11.3%, as compared with 91.1% as at 31 December 2019.

CAPITAL EXPENDITURE

Our capital expenditure comprises expenditures on purchase of intangible assets and purchase of property, plant and equipment. For the two years ended 31 December 2020 and 2019, total capital expenditure amounted to RMB19.6 million and RMB25.8 million respectively, representing a decrease of 24.0%. The decrease was mainly attributable to fewer purchases of intangible assets during the year of 2020.

SIGNIFICANT INVESTMENTS HELD/FUTURE PLANS FOR SIGNIFICANT INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2020, there was no significant investment held by the Group or future plans for significant investments or capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the year ended 31 December 2020, there was no material acquisitions or disposals of subsidiaries, associates and joint ventures.

CHARGE ON ASSETS

As at 31 December 2020, no property, plant and equipment was pledged.

CONTINGENT LIABILITIES

As at 31 December 2020, we did not have any unrecorded significant contingent liabilities against us.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, we employed approximately 1,200 full-time staff in total, approximately 87% of whom are research and development personnel. Substantially all of our employees are based in China, primarily at our headquarters in Beijing, with the remainder in Chengdu, Changchun and Shanghai. For the year ended 31 December 2020, cost of employees' remuneration and benefit was approximately RMB483.7 million as compared with RMB359.0 million for the year ended 31 December 2019.

We are committed to establishing a competitive and fair remuneration and benefits environment for our employees. To effectively motivate our business development team through remuneration incentives and ensure that our employees receive competitive remuneration packages, we continually refine our remuneration and incentive policies through market research and comparisons with our competitors. We conduct performance evaluations of our employees quarterly to provide feedback on their performance. Remuneration for our employees typically consists of a base salary and performance-based and year-end bonuses. To incentivize our Directors, senior management and employees of the Group for their contribution to our Group, the Company adopted the RSU Scheme and the Share Option Scheme on 1 April 2020 and 5 February 2021, respectively. For details, please refer to "RSU Scheme" and "Share Option Scheme" under the section "DIRECTORS' REPORT" in this annual report.

As required by PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including housing provident fund, pension insurance, medical insurance, maternity insurance, work-related injury insurance and unemployment insurance.

We provide regular and specialized training tailored to the needs of our employees in different departments. We regularly organize training sessions conducted by senior employees or external consultants, covering various aspects of our business operations, including overall management, project execution and technical know-how. We constantly review the content of training and follow up with employees to evaluate the effect of such training. Through the training, we help our employees to stay up to date with both industry development, skills and technologies. We also organize workshops, from time to time, to discuss specific topics.

FOREIGN CURRENCY EXCHANGE RISKS

For the year ended 31 December 2020, most of transactions of the Group and our cash and cash equivalents were denominated in RMB, US$ and HK$. The management team closely monitors foreign currency exchange risks to ensure that appropriate measures are implemented in a timely and effective manner. For the year ended 31 December 2020, the Group has not incurred any significant foreign currency exchange losses in its operations. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

USE OF NET PROCEEDS FROM GLOBAL OFFERING

On 15 July 2020, the Company successfully completed its initial public offering of 187,400,000 Shares at HK$11.60 per Share, and its Shares were listed on the Main Board of the Stock Exchange. The closing price on the Listing Date is HK$20.30 per share. On 11 August 2020, the over-allotment option described in the Prospectus was fully exercised by the Sole Global Coordinator on behalf of the International Underwriters as defined in the Prospectus in respect of an aggregate of 28,110,000 offer shares (the "Over-allotment Shares"). The Over-allotment Shares have been allotted and issued by the Company at HK$11.60 per Share. The net proceeds raised from the Global Offering (after taking account of the exercise of over-allotment option), after deduction of the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the Global Offering, were approximately HK$2,358.5 million. The net price to the Company (which was calculated by dividing the net proceeds by the number of shares issued in connection with the Global Offering after taking account of the exercise of over-allotment option) was approximately HK$10.94 per share.

The below table sets forth the proposed and actual applications of the net proceeds from the Listing Date to 31 December 2020:

Use of net proceeds	Percentage	Net proceeds from the Global Offering (after taking account of the exercise of over-allotment option) (HK$ million)	As at 31 December 2020 Utilized amount (HK$ million)	As at 31 December 2020 Unutilized amount (HK$ million)	Expected timeline for utilising the remaining net proceeds [(1)]
Enhancing the development capabilities and technology and expanding our game portfolio	40%	943.5	202.5	741.0	2020.07-2023.07
Expanding game publishing and operation business, particularly in markets outside of mainland China	20%	471.7	42.5	429.2	2020.07-2023.07
Funding strategic acquisition of and investment in upstream and downstream businesses along the industry value chain and investment in investment funds focusing on pan-entertainment or technology, media, and telecom	20%	471.7	36.9	434.8	2020.07-2022.07
Expanding the IP reserve and enriching our content offerings	10%	235.8	3.6	232.2	2020.07-2022.07
Working capital and general corporate uses	10%	235.8	35.3	200.5	N/A
Total	**100%**	**2,358.5**	**320.8**	**2,037.7**	

Note:

(1) The expected timeline for utilizing the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to changes based on the current and future development of the market conditions.

Since the Listing Date and up to 31 December 2020, approximately HK$320.8 million out of net proceeds from the Global Offering had been used. As at the date of this annual report, there was no change in the intended use of net proceeds and the expected timeline as previously disclosed in the section headed "Future plans and Use of proceeds" in the Prospectus. To the extent that net proceeds are not immediately used for the intended use, such proceeds are placed in short-term interest bearing instruments, such as liquid fixed-income securities, short-term bank deposits, short-term and low risk wealth management products or money market instruments with licensed commercial banks or other authorized financial institutions so long as it is deemed to be in the best interests of the Company.

Directors' Report

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

GLOBAL OFFERING AND PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 2 January 2020 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's Shares were listed on the Stock Exchange on 15 July 2020.

The Company is an investment holding company. The Group is principally engaged in the development and operating of mobile games in the PRC and other countries and regions.

The activities and particulars of the Group and an analysis of the Group's revenue and operating profit for the year by principal activities are set out under the section headed "Management Discussion and Analysis" in this annual report and Note 5 to the consolidated financial statements.

A review of the Group's business, major risks, use of net proceeds from the Global Offering, uncertainties faced by the Group, and the future development of the Group's business could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. The review and discussion form part of this directors' report.

RESULTS

The consolidation results of the Group for the year ended 31 December 2020 are set out on pages 71 to 162 of this annual report.

FINAL DIVIDENDS

The Board resolved to recommend the payment of a final dividend of HK7.4 cents per share (tax inclusive) for the year ended 31 December 2020 (the "Final Dividends"), totaling approximately HK$60.0 million. Subject to the approval of the Shareholders at the annual general meeting to be held on Friday, 18 June 2021 (the "AGM"), the Final Dividends will be paid to the Shareholders on Wednesday, 18 August 2021 whose names appear on the register of members of the Company on Monday, 28 June 2021.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Saturday, 12 June 2021 to Friday, 18 June 2021 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for attending the AGM, all share certificates with completed transfer forms must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 11 June 2021 for registration of share transfer.

For determining the entitlement to the Final Dividends for the year ended 31 December 2020, the register of members of the Company will be closed from Thursday, 24 June 2021 to Monday, 28 June 2021 (both days inclusive), during which period, no transfer of shares will be registered. In order to be qualified for the Final Dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 23 June 2021.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2020 are set out in Note 15 to the consolidated financial statements on pages 133 to 134 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environment protection and has not noted any material incompliance with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group has implemented environmental protection measures and has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste. Further details of the Group's environmental policies and performance will be disclosed in the environmental, social and governance report of the Company for the year ended 31 December 2020 to be published in due course.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2020 are set out in Note 23 to the consolidated financial statements on page 144 to 145 of this annual report.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the year ended 31 December 2020 are set out in Note 24 and Note 34(b) to the consolidated financial statements on page 146 and 162 respectively of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's distributable reserves were RMB5,961.1 million.

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

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to 31 December 2020.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors for the Reporting Period and up to the date of this annual report were:

Executive Directors

Mr. Li Qing *(Chairman)*
Mr. Bai Wei

Non-executive Directors

Ms. Liu Ming
Mr. Lu Xiaoyin *(appointed on 5 November 2020)*
Mr. Yan Xinguang *(resigned on 5 November 2020)*

Independent Non-executive Directors

Mr. Ge Xuan
Mr. Zhu Lin
Mr. Ding Zhiping

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 49 to 53 under the section headed "Biographical details of Directors and Senior Management" of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service agreement with our Company with an initial term of three years with effect from the date of the appointment, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other (subject always to re-election as and when required under the Articles of Association). No Director's remuneration is payable to the executive Directors under the agreement.

Each of our non-executive Directors and independent non-executive Directors has entered into a letter of appointment with our Company. Each of our non-executive Directors and independent non-executive Directors is appointed with an initial term of three years commencing from the Listing Date subject to termination in certain circumstances as stipulated in the relevant letters of appointment. Under these appointment letters, each of the independent non-executive Directors will receive a Director's annual remuneration of RMB100,000.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any members of our Group (other than statutory compensation).

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

No Director or any entity connected with them had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Company to which the Company, or any of its subsidiaries or fellow subsidiaries was a party since the Listing Date and up to 31 December 2020.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management receive compensation from the Group in the form of fees, salaries, bonuses, contributions to pension schemes, allowances and benefits in kind. The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Note 9 to the consolidated financial statements on pages 124 to 126 of this annual report.

The senior management's total remuneration paid/payable for the year ended 31 December 2020 (including all executive Directors) by bands is as follows:

Band	Number of senior management for the year ended 31 December 2020
Nil to RMB1,000,000	–
RMB1,000,001 to RMB2,000,000	1
RMB2,000,001 to RMB3,000,000	4
RMB3,000,001 to RMB4,000,000	–
RMB4,000,001 to RMB5,000,000	1

For the year ended 31 December 2020, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended 31 December 2020.

The employees of the Group's subsidiaries which operate in mainland China and overseas are required to participate in central pension schemes operated by the local government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. Details of the Group's pension scheme are set out in Note 9 to the consolidated financial statements on pages 124 to 126 of this annual report.

Except as disclosed above, no other payments have been made or are payable, during the Reporting Period, by our Group to or on behalf of any of the Directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this annual report, our non-executive Director, Ms. Liu Ming, held directorship in certain companies principally engaged in game development and distribution. On the basis that Ms. Liu Ming is not involved in the daily management and operation of the Company and such companies, the directorship held by Ms. Liu Ming would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

Save as disclosed above, during the Reporting Period, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a director of the Company and/or its subsidiaries under Rule 8.10 of the Listing Rules.

CONTRACT OF SIGNIFICANCE

Since the Listing Date and up to 31 December 2020, save as disclosed in this annual report, neither the Company nor any of its subsidiaries had any contract of significance with its controlling shareholder or its subsidiaries, nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries (as defined in Appendix 16 to the Hong Kong Listing Rules).

CONNECTED TRANSACTION

The Group has entered into several connected transaction agreements with certain connected persons of the Group as described in the paragraphs below.

Continuing Connected Transactions

(1) Non-Exempt Continuing Connected Transactions

Save for the Contractual Arrangements disclosed below, the transactions under the following continuing connected transaction framework agreements constitute non-exempt continuing connected transactions of the Company:

	Transactions/ Agreement	Parties	Term of Agreement	Contents of Transaction	Pricing Policy
Non-Exempt Continuing Connected Transactions					
1	Game Cooperation with Perfect World Group/Perfect World Game Cooperation Framework Agreement	The Group and Perfect World Group[1]	The term shall commence on the Listing Date and expire on 31 December 2022.	The Perfect World Group shall license certain IP rights on a non-exclusive basis to us to adapt and develop such IP to mobile or PC version of games, grant publishing rights of such games to us on an exclusive basis, and cooperate in the operation of such games.	The licensing fees and/or revenue sharing to be incurred by our Group to the Perfect World Group shall be determined upon arm's length negotiation between the parties with reference to (i) the quality and popularity of the original IP; (ii) the prevailing fee structure and pricing terms of comparable IPs in the market; and (iii) the potential revenue and profitability from the game. Based on the historical licensing fees paid for original IPs from independent licensors and the fee quotes provided by other independent licensors of similar IPs, we will be able to ensure that the fees to be incurred to the Perfect World Group by our Group represents the prevailing market price and on normal commercial terms that are no less favourable to our Company.

	Transactions/ Agreement	Parties	Term of Agreement	Contents of Transaction	Pricing Policy
Non-Exempt Continuing Connected Transactions					
2	Perfect World Graphic Design Services/Perfect World Game Cooperation Framework Agreement	The Group and Perfect World Group	The term shall commence on the Listing Date and expire on 31 December 2022.	The Perfect World Group shall provide graphic design services to our Group in return for service fees.	The service fees to be incurred by our Group to the Perfect World Group shall be determined after arm's length negotiation between the parties with reference to (i) the complexity of the design requirements; and (ii) the prevailing fee structure and pricing terms for similar services in the market. Based on fee quotes provided by other independent service providers, we will be able to ensure that the fees to be incurred to the Perfect World Group by our Group represents the prevailing market price and on normal commercial terms that are no less favourable to our Company.
3	Cloud Services of Tencent/ Cloud Services Agreement	The Group and Tencent Cloud[2]	The term was renewed from 1 January 2020 and shall expire on 31 December 2022.	The provision of services include (i) cloud services ranging from cloud computing, data storage and CDN services, cloud security services, domain name services, mobility and communications services, video services and artificial intelligence products and/or services; and (ii) 24-hour/7 days per week after-sales services as well as assistance in addressing issues encountered during the use of Tencent Cloud services by our Group. The precise scope shall be agreed in separate underlying orders to be placed by us depending on our business needs through the online platform of Tencent Cloud.	Before entering into any separate underlying orders under the Cloud Services Agreement, we will assess our needs, evaluate the quality of cloud services of different service providers and compare the rates of services fees proposed by Tencent Cloud with the rates offered by other independent competent service providers. Based on the fee quotes provided by other independent service providers, we will be able to ensure that the services fees to be incurred by our Group to Tencent Cloud represents the prevailing market price and on normal commercial terms that are no less favorable to our Company. Based on this agreement, we have enjoyed and will continue to enjoy a volume discount for the cloud services that are engaged in a calendar month on a progressive basis. We will only place an underlying order with Tencent Cloud when such order is in the best interests of our Company and our Shareholders as a whole.

	Transactions/ Agreement	Parties	Term of Agreement	Contents of Transaction	Pricing Policy
Non-Exempt Continuing Connected Transactions					
4	Publishing of Games on Tencent Platforms/ Tencent Game Cooperation Framework Agreement	The Group and Tencent Group	The term shall commence on the Listing Date and expire on 31 December 2022.	We shall engage Tencent Group as a distribution channel, such that our games are published on platforms operated by Tencent Group, such as Tencent MyApp (騰訊應用寶).	The commissions to be incurred by our Group to Tencent Group in relation to the publishing of games on Tencent platforms shall be determined after arm's length negotiation between the parties with reference to (i) the prevailing market rate; and (ii) the standard commission rates of the Tencent Group for game publishers, including our Company. Based on the fee quotes provided by other independent third party game publishers, we will be able to ensure that the commissions to be incurred by our Group to Tencent Group represents the prevailing market rate and on normal commercial terms that are no less favourable to our Company.
5	Exclusive Publishing and Operation of Games/ Tencent Game Cooperation Framework Agreement	The Group and Tencent Group	The term shall commence on the Listing Date and expire on 31 December 2022.	We shall engage the Tencent Group to publish, operate and promote certain games that we self-developed in designated regions.	The pricing of the transactions will be determined with reference to (i) the test results of our games based on Tencent's internal evaluation system with regards to the nature, quality and the expected popularity in the market; (ii) potential user traffic and gross billings arising from the platforms operated by the Tencent Group; and (iii) the fee arrangements at the prevailing terms in the market. Based on the fee quotes provided by other independent service providers, we will be able to ensure that the fees and revenue to be incurred by the Tencent Group to our Group represent the prevailing market price and on normal commercial terms that are no less favorable to our Company.

Transactions/ Agreement	Parties	Term of Agreement	Contents of Transaction	Pricing Policy
Non-Exempt Continuing Connected Transactions				
				The fee arrangements of such transactions may consist of any of the following: (i) fixed licensing fees that may be paid by separate instalments that are hedged against the progression of the commercial operation of the game; (ii) revenue sharing at a fixed proportion; and (iii) initial prepaid fees that shall be deductible for the subsequent revenue sharing. The pricing for the historical transactions was negotiated separately at arm's length, having taken into account the aforementioned considerations holistically.

Notes:

(1) Perfect World Group ultimately controls Perfect World Interactive, one of our substantial Shareholders.

(2) Tencent Cloud is a wholly-owned subsidiary of Tencent, one of our substantial Shareholders.

Transaction caps and actual transaction amounts for the year ended 31 December 2020

Actual transaction amounts and transaction caps of the above-mentioned non-exempt continuing connected transactions for the Reporting Period are as follows:

	For the year ended 31 December 2020	
	2020 Annual cap (RMB in million)	Actual amount (RMB in million)
Transactions with Perfect World Group		
Game cooperation with Perfect World Group	**17.70**[(1)]	15.31
Perfect World graphic design services	**19.40**	10.57
Transactions with Tencent Group		
Cloud services of Tencent	**4.30**	3.31
Publishing of games on Tencent platforms	**1.90**	0.73
Exclusive publishing and operation of games	**967.00**	490.00

Note:

(1) On 28 August 2020, the Board has resolved to revise the annual cap for the transactions contemplated under the Perfect World Game Cooperation Framework Agreement for the year ended 31 December 2020 from RMB9.5 million to RMB17.70 million. Further details of revision of annual cap are set out in the announcement dated 28 August 2020.

The Company has followed the pricing policies as disclosed in the Prospectus and this annual report in respect of the above continuing connected transactions for the year ended 31 December 2020.

For the year ended 31 December 2020, the independent non-executive Directors have reviewed the aforesaid non-exempt continuing connected transactions and confirmed that the transactions have been entered into:

(i) in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interest of the Company and Shareholders as a whole;

(ii) on normal commercial terms or better; and

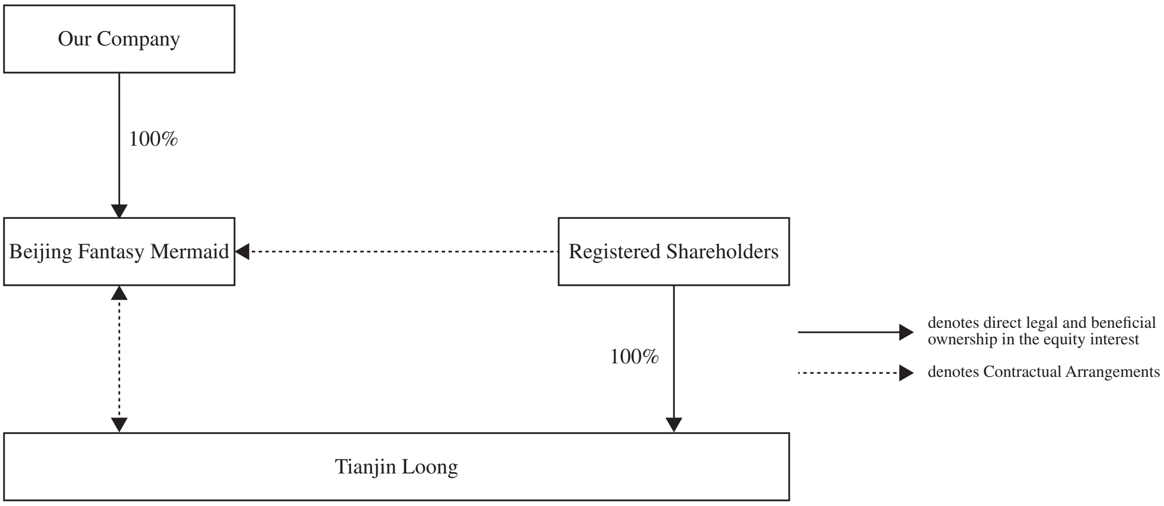
(iii) in the ordinary and usual course of business of the Company.

The Company's auditor has been engaged to report on the continuing connected transactions and has confirmed that the aforesaid non-exempt continuing connected transactions have been approved by the Board and entered into in accordance with the relevant agreements governing them. They are in accordance with the Company's pricing policies and have not exceeded the annual cap.

(2) Contractual Arrangements

On 10 March 2020, a series of Contractual Arrangements have been entered into by, among others, Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders through which we obtain control over the operations of, and enjoy all economic benefits of our Consolidated Affiliated Entities. The existing agreements underlying such Contractual Arrangements comprise: (i) Exclusive Business Cooperation Agreement; (ii) Exclusive Option Agreement; (iii) Equity Pledge Agreement; and (iv) Powers of Attorney. The total revenue of our Consolidated Affiliated Entities during the year ended 31 December 2020 was approximately RMB604.7 million, and the total assets of our Consolidated Affiliated Entities as at 31 December 2020 was approximately RMB1,630.7 million.

The following simplified diagram illustrates the relationships among the entities under the Contractual Arrangements:



Notes:

(1) Tianjin Loong and Beijing Fantasy Mermaid entered into the Exclusive Business Cooperation Agreement on 10 March 2020, pursuant to which Tianjin Loong agreed to engage Beijing Fantasy Mermaid as its exclusive service provider of comprehensive business support, technical services and consultation services.

(2) Beijing Fantasy Mermaid, Tianjin Loong and the Registered Shareholders entered into the Exclusive Option Agreement on 10 March 2020, pursuant to which the Registered Shareholders severally granted irrevocably to Beijing Fantasy Mermaid the rights to require the Registered Shareholders to transfer any or all their equity interests and to require Tianjin Loong to transfer any or all of its assets to Beijing Fantasy Mermaid and/or a third party designated by it, in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations.

(3) Beijing Fantasy Mermaid, Tianjin Loong and the Registered Shareholders entered into the Equity Pledge Agreement on 10 March 2020, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in Tianjin Loong to Beijing Fantasy Mermaid as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.

(4) The Registered Shareholders have executed Powers of Attorney on 10 March 2020, pursuant to which, each Registered Shareholder irrevocably appoints Beijing Fantasy Mermaid or its designated person, as its attorney-in-fact to exercise such shareholder's rights in Tianjin Loong.

(5) As of the date of this annual report, the Registered Shareholders are the following persons who together hold the 100% equity interest of Tianjin Loong:

Shareholders	Approximate percentage of shareholding
Beijing Loong	56.34%
Ningbo Longren	8.27%
Linzhi Lichuang	12.35%
Perfect World Games	18.05%
Ningbo Qiance	5.00%

Summary of the Contractual Arrangements

A brief description of each of the specific agreements that comprises the Contractual Arrangements is set out below.

(i) *Exclusive Business Cooperation Agreement*

Tianjin Loong and Beijing Fantasy Mermaid entered into the Exclusive Business Cooperation Agreement on 10 March 2020, pursuant to which Tianjin Loong agreed to engage Beijing Fantasy Mermaid as its exclusive service provider of comprehensive business support, technical services and consultation services, including (1) management consultation; (2) technical consultation; (3) technical service; (4) business support; (5) marketing and promotion; (6) development, maintenance and upgrade of software; (7) maintenance of the system; (8) human resource support; (9) rental of equipment; and (10) other relevant services requested by Tianjin Loong from time to time to the extent permitted under PRC laws and regulations.

Pursuant to the Exclusive Business Cooperation Agreement, the service fee shall be equivalent to the total consolidated net profit of Tianjin Loong, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, Beijing Fantasy Mermaid shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of the Consolidated Affiliated Entities. Tianjin Loong has agreed to pay the service fee to the bank account designated by Beijing Fantasy Mermaid within five business days after Beijing Fantasy Mermaid issues the payment notice.

The Exclusive Business Cooperation Agreement also provides that Beijing Fantasy Mermaid has the exclusive proprietary rights in any and all intellectual property rights developed or created by the Consolidated Affiliated Entities during the performance of the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreement may be terminated by Beijing Fantasy Mermaid (i) by giving Tianjin Loong a 30 days' prior written notice of termination; (ii) upon the transfer of the entire equity interests in and the transfer of all assets of Tianjin Loong to Beijing Fantasy Mermaid or its designated person pursuant to the Exclusive Option Agreement; (iii) when Tianjin Loong ceases to operate any business, becomes insolvency, bankruptcy or subject to liquidation or dissolution procedures; (iv) when relevant government authorities refuse to renew the expired operating period of Tianjin Loong or Beijing Fantasy Mermaid; (v) when it is legally permissible for Beijing Fantasy Mermaid to hold equity interests directly or indirectly in Tianjin Loong and Beijing Fantasy Mermaid or its designated person is registered to be the shareholder of Tianjin Loong; or (vi) Tianjin Loong breaches the Exclusive Business Cooperation Agreement. Tianjin Loong is not contractually entitled to unilaterally terminate the Exclusive Business Cooperation Agreement with Beijing Fantasy Mermaid.

(ii) *Exclusive Option Agreement*

Beijing Fantasy Mermaid, Tianjin Loong and the Registered Shareholders entered into the Exclusive Option Agreement on 10 March 2020, pursuant to which the Registered Shareholders severally granted irrevocably to Beijing Fantasy Mermaid the rights to require the Registered Shareholders to transfer any or all their equity interests and to require Tianjin Loong to transfer any or all of its assets to Beijing Fantasy Mermaid and/or a third party designated by it, in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations. If not explicitly specified in PRC laws and regulations, the transfer price shall be free or the nominal price. The Registered Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to Beijing Fantasy Mermaid any consideration they receive in the event that Beijing Fantasy Mermaid exercises the options under the Exclusive Option Agreement to acquire the equity interests and/or assets in Tianjin Loong.

The Exclusive Option Agreement has an indefinite term commencing from 10 March 2020, being the date of the Exclusive Option Agreement, until it is terminated (i) by Beijing Fantasy Mermaid through giving Tianjin Loong and the Registered Shareholders a prior written notice of termination; or (ii) upon the transfer of the entire equity interests held by the Registered Shareholders and/or the transfer of all the assets of Tianjin Loong to Beijing Fantasy Mermaid or its designated person and the completion of registration with the relevant local branch of the State Administration for Industry and Commerce of the PRC (the "SAIC"). Neither Tianjin Loong nor the Registered Shareholders is contractually entitled to terminate the Exclusive Option Agreement unless otherwise required by PRC laws and regulations.

(iii) *Equity Pledge Agreement*

Beijing Fantasy Mermaid, Tianjin Loong and the Registered Shareholders entered into the Equity Pledge Agreement on 10 March 2020, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in Tianjin Loong to Beijing Fantasy Mermaid as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.

Under the Equity Pledge Agreement, Tianjin Loong and the Registered Shareholders represent and warrant to Beijing Fantasy Mermaid that appropriate arrangements have been made to protect Beijing Fantasy Mermaid's interests in the event of bankruptcy of the Registered Shareholders to avoid any practical difficulties in enforcing the Equity Pledge Agreement and shall procure or use its reasonable efforts to procure any successors of the Registered Shareholders to comply with the same undertakings as if they were parties to the Equity Pledge Agreement. If Tianjin Loong declares any dividend during the term of the pledge, Beijing Fantasy Mermaid is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any. If any of the Registered Shareholders or Tianjin Loong breaches or fails to fulfill the obligations under any of the aforementioned agreements, Beijing Fantasy Mermaid, as the pledgee, will be entitled to escrow of the pledged equity interests, entirely or partially. In addition, pursuant to the Equity Pledge Agreement, each of the Registered Shareholders has undertaken to Beijing Fantasy Mermaid, among other things, not to transfer its equity interests in Tianjin Loong and not to create or allow any pledge thereon that may affect the rights and interest of Beijing Fantasy Mermaid without its prior written consent.

The equity pledge under the Equity Pledge Agreement takes effect upon the completion of registration with the relevant local branch of the SAIC and shall remain valid until (i) all the obligations under the Contractual Arrangements have been fulfilled; (ii) each of the Registered Shareholders has transferred all of its equity interests in Tianjin Loong in accordance with the Exclusive Option Agreement and the pledgee can legally conduct the mobile game operation business; (iii) all of it is terminated as required by applicable PRC laws and regulations; (iv) Tianjin Loong has transferred all of its assets in accordance with the Exclusive Option Agreement and the pledgee can legally conduct the mobile game operation business; or (v) the Equity Pledge Agreement has been unilaterally terminated by Beijing Fantasy Mermaid.

(iv) Powers of Attorney

The Registered Shareholders have executed Powers of Attorney on 10 March 2020, pursuant to which, each Registered Shareholder irrevocably appoints Beijing Fantasy Mermaid or its designated person, as its attorney-in-fact to exercise such shareholder's rights in Tianjin Loong, including without limitation to, the rights to (i) convene and participate in shareholders' meeting pursuant to the articles of Tianjin Loong in the capacity of a proxy of the Registered Shareholder; (ii) exercise the voting rights pursuant to the relevant PRC laws and regulations and the articles of Tianjin Loong, on behalf of the Registered Shareholder, and adopt resolutions, on matters to be discussed and resolved at shareholders' meetings and the appointment and election of directors of Tianjin Loong; (iii) sign or submit any required document to any company registry or other authorities in the capacity of a proxy of each Registered Shareholder; and (iv) to nominate, elect, designate or appoint and remove the legal representative, directors, supervisors and other senior officers of Tianjin Loong pursuant to the articles of association of Tianjin Loong; to raise lawsuits or other legal proceedings against the directors and senior officers of Tianjin Loong when their behaviours harm the interest of its shareholders; and to instruct the directors and senior officers to act in accordance with our attention.

The Powers of Attorney has an indefinite term commencing from 10 March 2020 and will be terminated in the event that (i) the Powers of Attorney is unilaterally terminated by Beijing Fantasy Mermaid; or (ii) it is legally permissible for Beijing Fantasy Mermaid, our Company or any of our subsidiaries to hold equity interests directly or indirectly in Tianjin Loong and Beijing Fantasy Mermaid or its designated person is registered to be the sole shareholder of Tianjin Loong.

Reasons for adopting the Contractual Agreements

We are considered to be engaged in the provision of value-added telecommunications services and internet culture business as a result of the operations of our business. We conduct our mobile game operation business through our Consolidated Affiliated Entities, namely Tianjin Loong and its subsidiary, Huai'an Loong. Pursuant to applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting internet culture business and are restricted to conduct value added telecommunications services.

As advised by our PRC Legal Advisor, while the business of Tianjin Loong and Huai'an Loong of mobile game operation falls within the scope of "value-added telecommunication service" under the Telecommunications Regulations, where foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business, each of our Consolidated Affiliated Entities conducting mobile game operation business, which also falls within the scope of internet cultural business, must concurrently hold the Internet Cultural License, which is prohibited to be held by any foreign invested companies, to operate its principal business of mobile game operation.

As a result of the foregoing, on 10 March 2020, a series of Contractual Arrangements have been entered into by, among others, Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders through which we obtain control over the operations of, and enjoy all economic benefits of our Consolidated Affiliated Entities. Further details of the limitations on foreign ownership in PRC companies conducting internet cultural business and value-added telecommunications services under applicable PRC laws and regulations are set out under the section headed "Regulatory Overview – Regulations on Foreign Investments" in the Prospectus.

Risks relating to the Contractual Arrangements

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

(i) If the PRC government finds that the agreements that establish the structure for operating our business 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 interests in our Consolidated Affiliated Entities.

(ii) Our contractual arrangements may not be as effective in providing operational control as direct ownership. Tianjin Loong or their shareholders may fail to perform their obligations under our contractual arrangements.

(iii) We may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are material to our business operations if our Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.

(iv) The shareholders and directors of Tianjin Loong may have conflicts of interest with us, which may materially and adversely affect our business.

(v) If we exercise the option to acquire equity ownership and assets of our Consolidated Affiliated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.

(vi) Substantial uncertainties exist with respect to the interpretation and implementation of the 2019 Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

(vii) Our contractual arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

Further details of these risks are set out under the section headed "Risk Factors – Risks Related to Our Contractual Arrangements" in the Prospectus.

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:

(i) 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;

(ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(iii) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports;

(iv) our Company will engage external legal advisors or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Beijing Fantasy Mermaid and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

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

(i) 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;

(ii) 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;

(iii) 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

(iv) 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 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.

RELATED PARTY TRANSACTIONS

Details of the related party transactions carried out in the normal course of business are set out in Note 32 to the consolidated financial statements. Save as disclosed above, none of these related party transactions constitutes a connected transaction or continuing connected transaction as defined under the Listing Rules, and the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules and disclosed in this annual report.

MANAGEMENT CONTRACTS

Other than the Directors' service contracts and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the year ended 31 December 2020.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares, were entered into by the Company since the Listing Date and up to 31 December 2020 or subsisted at the end of 2020.

DONATIONS

During the Reporting Period, there was no charitable and other donations made by the Group.

MATERIAL LEGAL PROCEEDINGS

The Group was not involved in any material legal proceeding during the year ended 31 December 2020.

LOAN AND GUARANTEE

During the year ended 31 December 2020, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, senior management of the Company, the controlling Shareholders or their respective connected persons.

FINANCIAL, BUSINESS AND FAMILY RELATIONS AMONG DIRECTORS

Directors are not related to one another with respect to finance, business and family, or other material relations.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As of 31 December 2020, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director	Nature of Interest	Number of ordinary shares interested(1)	Approximate percentage of the Company's issued share capital(2)
Mr. Li Qing(3)	Interest in controlled corporation	278,799,802	34.19%
Mr. Bai Wei(4)	Interest in controlled corporation	15,447,304	1.89%

Notes:

(1) All interest stated are long positions.

(2) The calculation is based on the total number of 815,510,000 Shares in issue as of the date of this annual report.

(3) 278,329,802 Shares were held through Cresc Chorus, a company owned as to 81.96% by LuckQ, which in turn is wholly-owned by Mr. Li Qing and 470,000 Shares were held through Pondweed Holdings Limited, a company wholly-owned by Mr. Li Qing. Accordingly, Mr. Li Qing was deemed to be interested in such Shares held by Cresc Chorus and Pondweed Holdings Limited for the purpose of part XV of the SFO.

(4) These Shares were held by Wade Data Services Limited ("Wade Data") which was wholly-owned by Mr. Bai Wei. Accordingly, Mr. Bai Wei was deemed to be interested in such Shares held by Wade Data for the purpose of part XV of the SFO.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, as of 31 December 2020, the following persons have interests or a short positions in Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained by the Company under Section 336 of the SFO:

Name	Nature of Interest	Number of ordinary shares interested[(1)]	Approximate percentage of the Company's issued share capital[(2)]
Mr. Li Qing	Interest in controlled corporation	278,799,802	34.19%
Cresc Chorus[(3)]	Beneficial owner	278,329,802	34.13%
LuckQ	Interest in a controlled corporation	278,329,802	34.13%
Perfect World Interactive[(4)]	Beneficial owner	138,593,999	16.99%
Perfect Game Speed Company Limited[(4)]	Interest in a controlled corporation	138,593,999	16.99%
Perfect Freedom Company Limited[(4)]	Interest in a controlled corporation	138,593,999	16.99%
Beijing Perfect World Software Technology Development Co., Ltd.[(4)]	Interest in a controlled corporation	138,593,999	16.99%
Perfect World Games[(4)]	Interest in a controlled corporation	138,593,999	16.99%
Perfect World[(4)]	Interest in a controlled corporation	138,593,999	16.99%
Mr. Chi Yufeng (池宇峰)	Interest in a controlled corporation	138,593,999	16.99%
Image Frame[(5)]	Beneficial owner	105,077,999	12.88%
Tencent[(5)]	Interest in controlled corporation	105,077,999	12.88%
GIC Private Limited	Investment manager	65,369,000	8.02%
Green Particle	Beneficial owner	48,598,200	5.96%

Notes:

(1) All interests stated are long positions.

(2) The percentages represented the number of Shares over the total issued share capital of the Company as at the date of this annual report of 815,510,000 Shares.

(3) Based on the latest disclosure of interest form filed by each of Cresc Chorus, LuckQ and Mr. Li Qing, Cresc Chorus was owned as to 81.96% by LuckQ, which was in turn wholly owned by Mr. Li Qing. Accordingly, each of LuckQ and Mr. Li Qing was deemed to be interested in all the Shares held by Cresc Chorus by virtue of the SFO.

(4) Based on the latest disclosure of interest form as at the date of this annual report filed by each of Perfect World Interactive, Perfect Game Speed Company Limited, Perfect Freedom Company Limited, Beijing Perfect World Software Technology Development Co., Ltd., Perfect World Games, Perfect World and Mr. Chi Yufeng. Perfect World Interactive was wholly owned by Perfect Game Speed Company Limited, which was in turn wholly owned by Perfect Freedom Company Limited, Perfect Freedom Company Limited was wholly owned by Beijing Perfect World Software Technology Development Co., Ltd., which was in turn wholly owned by Perfect World Games. Perfect World Games was wholly owned by Perfect World, which was in turn owned as to 35.36% by Mr. Chi Yufeng. Accordingly, each of perfect Game Speed Company Limited, Perfect Freedom Company Limited, Beijing Perfect World Software Technology Development Co., Ltd., Perfect World Games, Perfect World and Mr. Chi Yufeng was deemed to be interested in all the Shares held by Perfect World Interactive by virtue of the SFO.

(5) Based on the latest disclosure of interest form filed by Image Frame Investment (HK) Limited ("Image Frame") and Tencent as at the date of this annual report, Image Frame was a wholly-owned subsidiary of Tencent. By virtue of the SFO, Tencent was deemed to be interested in all the Shares held by Image Frame.

RSU SCHEME

On 1 April 2020, the Company adopted the RSU Scheme. As at 31 December 2020, 137 employees participated in the RSU Scheme. RSUs representing a total of 17,996,916 underlying Shares (representing approximately 2.21% of the total number of issued shares of our Company as at the date of this annual report) were granted to the above participants.

The purpose of the RSU Scheme is to incentivize our Directors, senior management and employees of the Group for their contribution to our Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of our Group by providing them with the opportunity to own equity interests in our Company.

Details of the RSUs granted under the RSU Scheme as at 31 December 2020 are set out below. None of the RSU participants in respect of the grant below is our Director, senior management of our Company or directors of our subsidiaries.

Position held in our Group (by department)	Number of employees granted RSUs	Number of underlying Shares represented by RSUs	Date of grant	Approximate percentage of shareholding
Research and Development	116	13,338,780	1-Apr-20	1.64%
		711,480	24-Jun-20	0.09%
Publishing and Operation Center	6	635,040	1-Apr-20	0.08%
Administration	15	3,311,616	1-Apr-20	0.41%
Total	137	17,996,916		2.21%

Note:

(1) The calculation is based on the total number of issued shares of the Company as at the date of this annual report of 815,510,000 Shares.

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

Such RSUs shall (unless our Company shall otherwise determine and so notify the RSU participant in writing) vest as follows:

(i) 40% of which on the first trading day after the expiry of 12 months from the Listing Date;

(ii) 30% of which on the first trading day after the expiry of 24 months from the Listing Date; and

(iii) 30% of which on the first trading day after the expiry of 36 months from the Listing Date.

The above RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares.

As of 31 December 2020, none of the RSUs so granted had been vested.

SHARE OPTION SCHEME

As at 31 December 2020, the Company did not have any share option schemes. The Company adopted the Share Option Scheme on 5 February 2021. Details of the Share Option Scheme are set out in the circular of the Company dated 19 January 2021.

On 14 April 2021, 8,155,100 Options were granted to eligible grantees under the Share Option Scheme. For details, please refer to the announcement of the Company dated 14 April 2021.

Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Participants for their contribution to, and continuing efforts to promote the interests of, the Group, and to incentivize them to remain with the Group, as well as for such other purposes as the Board may approve from time to time.

Participants of the Share Option Scheme

Eligible Participants include any full-time employee (excluding any director) of the Company and any subsidiary. For the purposes of the Share Option Scheme, the Offer may be made to any company wholly owned by one or more Eligible Participants.

Maximum Number of Shares Available for Subscription under the Share Option Scheme

The aggregate number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme shall not exceed 5% of the total number of Shares in issue as at the Adoption Date. The total number of Shares which can be issued upon exercise of all Options to be granted under the Share Option Scheme would be 40,775,500 Shares representing 5% of the total number of shares in issue as at the date of this annual report.

The Maximum Entitlement of Each Participant under the Share Option Scheme

The total number of Shares issued and to be issued upon exercise of the Options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each Grantee in any 12-month period shall not exceed 1% of the Shares in issue (i.e. not exceeding 8,155,100 Shares) from time to time. Where any further grant of Options to a Grantee under the Share Option Scheme would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding Options) under the Share Option Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by shareholders of the Company at general meeting with such Grantee and his close associates (or his associates if the Grantee is a connected person) abstaining from voting. The Company must send a circular to the Shareholders and the circular must disclose the identity of the Grantee, the number and terms of the options to be granted (and options previously granted to such Grantee), the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

Time of Exercise of Option

Subject as provided and subject to the terms and conditions upon which such Option was granted, an Option may (and may only) be exercised by the Grantee at any time or times during the Option Period.

Minimum Holding Period

Besides otherwise determined by the Board and stated in the Offer to a Grantee, the exercise of any Option is subject to a minimum holding period and the achievement of the performance targets as described in the letter containing the Offer at the time of the grant of the Options.

Acceptance of Offers

An Offer shall have been accepted by an Eligible Participant in respect of all Shares under the Option which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the Offer duly signed by the Eligible Participant together with a remittance in favour of the Company of HK$1 by way of consideration for the grant thereof is received by the Company within such time as may be specified in the Offer (which shall not be later than 21 days from the Offer Date). Such remittance shall in no circumstances be refundable.

Exercise Price

The Exercise Price in respect of any Option shall, subject to any adjustments made in such manner as the auditors or the independent financial adviser of the Company retained for such purpose shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company, be determined at the absolute discretion of the Board, provided that it shall not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the Offer Date; and

(iii) the nominal value of the Shares.

Duration of the Share Option Scheme

Subject to the fulfillment of the effective conditions and the termination provisions, the Share Option Scheme shall be valid and effective until the Termination Date, after which period no further Options may be issued but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect to give effect to the exercise of any Options granted but not exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2020, the Group's largest customers accounted for 40.5% of the Group's total revenue. The Group's five largest customers accounted for 49.4% of the Group's total revenue.

For the year ended 31 December 2020, the Group's largest suppliers accounted for 16.7% of the Group's total purchase. The Group's five largest suppliers accounted for 55.1% of the Group's total purchase.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or customers during the year ended 31 December 2020.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

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

SUFFICIENCY OF PUBLIC FLOAT

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

INDEMNITY OF DIRECTORS

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

CORPORATE GOVERNANCE

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

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Corporate Governance Code during the Reporting Period.

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

Information on the corporate governance practice adopted by the Company is set out on page 54 to 64 under the section headed "Corporate Governance Report" in this annual report.

AUDITOR

There has been no change in auditors during the Reporting Period. The consolidated financial statements for the year ended 31 December 2020 has been audited by PricewaterhouseCoopers, Certified Public Accountants.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended 31 December 2020, the Company is in compliance with relevant laws and regulations that have a significant impact on the Company.

On behalf of the Board
Li Qing
Chairman

Beijing, China, 29 March 2021

Biographical Details of Directors and Senior Management

As at the date of this annual report, biographical details of the Directors and senior management are set out below.

DIRECTORS

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

Name	Age	Position	Date of Appointment as Director
Executive Directors			
Mr. Li Qing (李青)	46	Chairman, Executive Director and Chief Executive Officer	20 January 2020
Mr. Bai Wei (白瑋)	43	Executive Director	4 March 2020
Non-executive Directors			
Ms. Liu Ming (劉銘)	48	Non-executive Director	4 March 2020
Mr. Lu Xiaoyin (魯曉寅)	42	Non-executive Director	5 November 2020
Independent Non-Executive Directors			
Mr. Ge Xuan (葛旋)	49	Independent Non-Executive Director	24 June 2020
Mr. Zhu Lin (朱霖)	47	Independent Non-Executive Director	24 June 2020
Mr. Ding Zhiping (丁治平)	61	Independent Non-Executive Director	24 June 2020

EXECUTIVE DIRECTORS

Mr. Li Qing (李青), aged 46, is an executive Director, the chairman of the Board and the chief executive officer of our Company. He is responsible for the overall management, decision-making and strategy planning of our Group.

Mr. Li is our founder and has approximately 24 years' experience in game development. Prior to founding our Group, Mr. Li served as a chief design officer of e-Pie Entertainment & Technology Corporation (Beijing) (北京市歡樂億派科技有限公司) from August 2000 to March 2004, during which he was responsible for game development. Until September 2014, he served as a chief development officer in the Perfect World Group, during which he was responsible for game development. Mr. Li founded our Group in September 2014. He currently also holds directorships in several subsidiaries within our Group.

Mr. Li obtained a bachelor's degree in physics and a master's degree in nuclear energy science and engineering from Tsinghua University (清華大學) in Beijing in July 1997 and June 2000, respectively. In addition, Mr. Li also obtained an executive master of business administration from Cheung Kong Graduate School of Business (長江商學院) in Beijing in May 2010.

Mr. Bai Wei (白瑋), aged 43, is an executive Director and the general manager of program center (程序中心) of our Company. He is primarily responsible for assisting in the overall management, strategic planning and decision-making of products research and development of our Group.

Mr. Bai has over 18 years of experience in the information technology and game industry. From April 2004 to January 2015, Mr. Bai was a senior management member in the Perfect World Group. Mr. Bai joined our Group in January 2015. Since March 2018, he has been a director of Tianjin Loong, one of the subsidiaries within our Group.

Mr. Bai obtained a bachelor's degree and a master's degree in electrical engineering from Tsinghua University (清華大學) in Beijing in September 1999 and January 2002, respectively.

NON-EXECUTIVE DIRECTORS

Ms. Liu Ming (劉銘), aged 48, is a non-executive Director of our Company. She is primarily responsible for supervising the management of our Group.

Ms. Liu has extensive experience in the game industry. Before joining Tencent Games, she held executive positions in two other gaming companies. Ms. Liu has been working at Tencent Games, an online game platform operated by Tencent since November 2013, and currently serves as a vice president, overseeing the domestic and overseas distribution of mobile games of Tencent Games. Since March 2018, she has been a director of Tianjin Loong, one of the subsidiaries within our Group.

Ms. Liu obtained a master's degree in pedagogy from East China Normal University (華東師範大學) in Shanghai in July 2000.

Mr. Lu Xiaoyin (魯曉寅), aged 42, is a non-executive Director of our Company. He is primarily responsible for supervising the management of our Group.

Mr. Lu has extensive experience in the game industry. From 2001 to 2004, he served as the artistic director in e-Pie Entertainment & Technology Corporation (Beijing) (北京歡樂億派科技有限公司). He has successively been working at Perfect World Co., Ltd. (完美世界股份有限公司, a company established in the PRC of which its shares are listed on the Shenzhen Stock Exchange (stock code: 002624)) and its respective affiliate(s) as well as its subsidiary(ies) since April 2004, and currently serves as the president in Perfect World Co., Ltd. (完美世界股份有限公司) and the chief executive officer in Perfect World Games Co., Ltd. (完美世界遊戲有限責任公司).

Mr. Lu obtained his bachelor's degree of Art Education from Zhejiang Normal University (浙江師範大學) in Zhejiang in July 2001. He obtained the master's degree in Business Administration for Senior Management Personnel from the Cheung Kong Graduate School of Business (長江商學院) in Beijing in September 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ge Xuan (葛旋), aged 49, is an independent non-executive Director. He is primarily responsible for supervising our Board and providing independent judgment.

Mr. Ge has extensive experience in the finance industry. Since June 2013, Mr. Ge has been serving as a director and general manager at Minsheng Tonghui Asset Management Co., Ltd. (民生通惠資產管理有限公司). From July 1993 to September 1998, he held different management positions in Guosen Securities Co., Ltd. (國信證券股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002736). From January 1999 to June 2000, he served as director of the trading and investment department and an assistant to the president at Bosera Asset Management Co., Limited (博時基金管理有限公司). From July 2000 to March 2002, he was an assistant to the president, director of the trading department and a member of the investment decision committee (投資決策委員會) and risk control committee at Penghua Fund Management Co., Ltd. (鵬華基金管理有限公司). From August 2002 to December 2003, he served as an investment director at Gold State Securities Co., Ltd. (金元證券股份有限公司). From December 2003 to October 2010, he served as a vice president and director at Huaxi Securities Co., Ltd. (華西證券股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002926). From September 2009 to June 2013, he held different management positions in Minsheng Life Insurance Co., Ltd. (民生人壽保險股份有限公司). From March 2014 to June 2019, he was an independent non-executive director of Ourgame International Holdings Limited (a company listed on the Stock Exchange, stock code: 6899).

Mr. Ge obtained a bachelor's degree in international trade from Shenzhen University (深圳大學) in Shenzhen in June 1993 and an executive master of business administration from Cheung Kong Graduate School of Business (長江商學院) in Beijing in September 2010.

Mr. Zhu Lin (朱霖) (formerly known as Zhu Xiaolin (朱小林)), aged 47, is an independent non-executive Director. He is primarily responsible for supervising our Board and providing independent judgment.

Mr. Zhu has extensive experience in accounting and financial consulting. From October 2003, he served as a senior manager at the mergers and acquisitions department of PricewaterhouseCoopers Consulting (Shenzhen) Co., Ltd. (Beijing Branch) (普華永道諮詢(深圳)有限公司北京分公司). Since October 2005, Mr. Zhu has been serving as a partner of Beijing Legendhouse CPAs (北京潤衡會計師事務所) and since March 2006, Mr. Zhu has been serving as a director of Beijing Legendhouse Consulting (北京潤勤諮詢有限公司).

Mr. Zhu obtained a bachelor's degree in overseas financial accounting (會計系外國財務會計專門化) from the Central University of Finance and Economics (中央財經大學) in Beijing in June 1995. Mr. Zhu has been a member of the Chinese Institute of Certified Public Accountants since February 2000. Since November 2020, Mr. Zhu has been serving as an independent non-executive director of Sino-Ocean Service Holding Limited (遠洋服務控股有限公司), a company listed on the Stock Exchange (stock code: 6677). Since October 2020, Mr. Zhu has been serving as a director of Jiangsu Changshu Automotive Trim Group Co., Ltd. (江蘇常熟汽飾集團股份有限公司), formerly known as Changshu Automotive Trim Co., Ltd. (常熟市汽車飾件股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603035). Since March 2015, Mr. Zhu has been serving as an independent non-executive director of Tsaker Chemical Group Limited (彩客化學集團有限公司), a company listed on the Stock Exchange (stock code: 1986).

Mr. Ding Zhiping (丁治平), aged 61, is an independent non-executive Director. He is primarily responsible for supervising our Board and providing independent judgment.

Mr. Ding has over 41 years of work experience. Since April 2002, Mr. Ding has been working at Xinjiang International Industry Co., Ltd. (新疆國際實業股份有限公司) where he is currently the chairman of the board of directors. From November 1995 to April 1997, he served as a senior engineer at Bank of China, Xinjiang Branch. From February 2002 to April 2002, he served as chairman of the board of directors and general manager at Xinjiang Foreign Economic and Trade Group Co., Ltd. (新疆外經貿集團有限責任公司).

Mr. Ding obtained a bachelor's degree in computer science from the Hefei University of Technology (合肥工業大學) in Hefei in September 1987, a master's degree in business management from the Auckland Institute of Studies in Auckland, New Zealand in April 1999 and an executive master of business administration from the Cheung Kong Graduate School of Business (長江商學院) in Beijing in May 2010.

SENIOR MANAGEMENT

Mr. Li Qing (李青), is the chief executive officer of our Company. See the paragraph headed "EXECUTIVE DIRECTORS" above.

Mr. Zhang Yu (張羽), aged 44, is the chief technical officer and general manager of the engine center (引擎中心) of our Company. Mr. Zhang is responsible for leading the research and application of engine technology.

Mr. Zhang has extensive experience in the game industry. From March 2004 to January 2015, Mr. Zhang served as the program director of Studio I (工作一室) at the Perfect World Group. Mr. Zhang joined our Group in January 2015 and since then Mr. Zhang has been serving as the general manager of the engine center (引擎中心) of our Group.

Mr. Zhang obtained a bachelor's degree in electrical engineering from Tsinghua University (清華大學) in Beijing in July 2000.

Mr. Li Yi (李軼), aged 41, is the vice president and chief financial officer of our Company. Mr. Li is responsible for providing financial management and formulating financial strategies of our Group.

Mr. Li has extensive experience in accounting and financial management. From September 2001 to September 2011, Mr. Li worked at the audit department and the tax department of Ernst & Young (China) Advisory Limited Beijing Office in which his last position was senior manager. From February 2013 to October 2015, Mr. Li served as a tax director (稅務總監) at the Perfect World Group. Mr. Li joined our Group in November 2015 and since then Mr. Li has been serving as the vice president and chief financial officer of our Group.

Mr. Li obtained a bachelor's degree in accounting (Certified Public Accountant) from Capital University of Economics and Business (首都經濟貿易大學) in Beijing in July 2001. He is accredited as a Certified Tax Agent (註冊稅務師) by the Beijing Bureau of Human Resource and Social Security (北京市人力資源和社會保障局) in September 2009. He has obtained the Board Secretary Qualification from the Shenzhen Stock Exchange (深圳證券交易所) in April 2019.

Mr. Wu Shenghe (吳盛鶴), aged 39, is the executive president of our Company. He is mainly responsible for the Company's global business, project management and support, government affairs, public relationships and human resources functions.

Mr. Wu has extensive experience in global business development and organizational development. From 2005 to 2010, he served as talent and organization development manager at Kimberly-Clark (China) Co., Ltd. From 2010 to 2015, he served as senior human resources director at Perfect World (Beijing) Network Technology Co., Ltd. (完美世界(北京)網絡技術有限公司). From 2013 to 2015, he served as general manager at Perfect World (Beijing) Network Technology Co., Ltd., Shanghai Branch. From 2015 to September 2020, he served as vice president of general management in our Company.

Mr. Wu obtained a bachelor's degree in Environmental Engineering from Beijing Forestry University (北京林業大學) in July 2005. He is also a certified coach of the International Coaching Federation.

JOINT COMPANY SECRETARIES

Ms. Hao Lili (郝莉麗), aged 41, has been appointed as one of our joint company secretaries with effect from the Listing Date.

Ms. Hao has extensive experience in the legal industry. From September 2011 to March 2015, Ms. Hao served as a senior legal consultant at the Perfect World Group, during which she was primarily responsible for M&A support, intellectual property management and compliance. Ms. Hao joined our Group in May 2016 as the legal director of our Group. She is primarily responsible for leading the legal and compliance work of our Group.

Ms. Hao obtained a bachelor's degree in economic law from the China University of Political Science and Law (中國政法大學) in Beijing in July 2002 and a master's degree in international business law from the University of Nottingham, the UK in December 2003. Ms. Hao holds a Legal Profession Qualification Certificate (法律職業資格證書) granted by the Ministry of Justice of the PRC (中華人民共和國司法部) in February 2006 and Securities Practice Qualification Certificate (證券從業資格證) granted by the Securities Association of China in May 2015.

Ms. Zhang Xiao (張瀟), aged 33, has been appointed as one of our joint company secretaries with effect from 15 January 2021.

Ms. Zhang is a manager of SWCS and has over seven years of experience in the corporate secretarial field. Ms. Zhang has been admitted as an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom in 2019. Ms. Zhang obtained a bachelor's degree in Computer Science from The Chinese University of Hong Kong in 2010 and a master's degree in corporate governance from The Open University of Hong Kong in 2018.

Reference is made to the waiver granted to the Company by the Stock Exchange from strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules on 15 January 2021. Ms. Hao Lili will be assisted by Ms. Zhang Xiao during the period from 15 January 2021 to 15 July 2023. Further details of the waiver are set out in the Company's announcement dated 15 January 2021.

The Company is committed to achieving and maintaining high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound corporate governance policies and measures, and the Board is responsible for performing such corporate governance duties. The Board will continue to review and monitor the corporate governance of the Company, as well as various internal policies and procedures, including but not limited to those applicable to employees and Directors, with reference to the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules and other applicable legal and regulatory requirements so as to maintain a high standard of corporate governance of the Company.

During the year ended 31 December 2020, the Company has complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules other than code provision A.2.1, which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for leadership and the internal control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place. The Board has general powers for the management and is conducting the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Company, who will implement the strategy and direction as determined by the Board.

All Directors shall at all times ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders.

The Board confirms that corporate governance shall be the joint responsibility among Directors and the corporate governance functions include:

(i) to formulate and review the Company's policies and practice in the aspect of compliance with laws and regulatory requirements;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to formulate, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

(iv) to formulate and review the Company's policies and practice in corporate governance, and make recommendations and report relevant matters to the Board;

(v) to review the Company's compliance with the Corporate Governance Code and the disclosure in the corporate governance report; and

(vi) to review and monitor the Company's compliance with the whistleblowing policy of the Company.

The Board has performed the functions set out in code provision D.3.1 of the Corporate Governance Code from the Listing Date to 31 December 2020.

Board Composition

The Board currently consists of seven Directors, namely Mr. Li Qing (chairman of the Board), Mr. Bai Wei as executive Directors, Ms. Liu Ming and Mr. Lu Xiaoyin as non-executive Directors, and Mr. Ge Xuan, Mr. Zhu Lin and Mr. Ding Zhiping as independent non-executive Directors. None of the Directors or senior management has a relationship (including financial, family or other substantial or related relationship) with each other. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company.

The biographies of the Directors are set out under the section headed “Biographical details of Directors and Senior Management” in this annual report.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Li Qing is currently the chairman and chief executive officer of the Company. In view of his substantial contribution to the Group since its establishment and his extensive experience in the game industry, the Board considers that vesting the roles of chairman and chief executive officer in the same individual provides the Group with strong and consistent leadership in the development and execution of long term business strategies and does not impair the balance of power and authority between the Board and the management of the Company. The Board currently comprises two executive Directors (including Mr. Li Qing), two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

The Board will continue to review the effectiveness of the corporate governance structure in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

Independent Non-executive Directors

During the year ended 31 December 2020 and up to the date of this annual report, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board, of whom Mr. Zhu Lin is the Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Directors’ Training and Professional Development

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

Name of Director	Attending relevant training courses, seminars, conferences and/or reading relevant materials
Executive Directors	
Mr. Li Qing	✓
Mr. Bai Wei	✓
Non-executive Directors	
Ms. Liu Ming	✓
Mr. Lu Xiaoyin	✓
Independent Non-executive Directors	
Mr. Ge Xuan	✓
Mr. Zhu Lin	✓
Mr. Ding Zhiping	✓

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service agreement with our Company with an initial term of three years with effect from the date of the appointment, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other (subject always to re-election as and when required under the Articles of Association). No Director's remuneration is payable to the executive Directors under the agreement.

Each of our non-executive Directors and independent non-executive Directors has entered into a letter of appointment with our Company. Each of our non-executive Directors and independent non-executive Directors is appointed with an initial term of three years with effect from the date of the appointment subject to termination in certain circumstances as stipulated in the relevant letters of appointment. Under these appointment letters, each of the independent non-executive Directors will receive a Director's remuneration of RMB100,000.

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

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself for re-election by the Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself for re-election by the Shareholders at the next following general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

BOARD AND COMMITTEE MEETINGS

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

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

Since the Listing Date and up to 31 December 2020, at the Board meetings, committee meetings and general meeting the attendance record of each Director are set out in the table below:

	Attendance/No. of Meetings Held during the Reporting Period[1]					
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Risk Management Committee**	**General meeting**
Executive Directors						
Li Qing	4/4	–	–	2/2	–	–
Bai Wei	4/4	–	–	–	–	–
Non-executive Directors						
Liu Ming	3/4	–	–	–	–	–
Yan Xinguang[2]	3/3	–	–	–	–	–
Lu Xiaoyin[3]	1/1	–	–	–	–	–
Independent Non-executive Directors						
Ge Xuan	4/4	3/3	–	2/2	–	–
Zhu Lin	4/4	3/3	–	–	–	–
Ding Zhiping	4/4	3/3	–	2/2	–	–

Notes:

(1) The Directors of the Board who did not attend the meeting in person have all entrusted proxies to attend the meeting, which was not counted into their attendance record.

(2) On 5 November 2020, Mr. Yan Xinguang resigned from the position as the non-executive Director. Mr. Yan has attended three Board meetings convened during the period from the Listing Date up to his resignation date.

(3) Mr. Lu Xiaoyin was appointed as a non-executive Director of the Company with effect from 5 November 2020. During the period from his appointment date up to 31 December 2020, one Board meeting was held.

At the Board meetings held since the Listing Date and up to 31 December 2020, the Board discussed a wide range of matters, including the Company's financial and operational performances, approved interim and annual results of the Company, business prospects and other significant matters.

Apart from the above meetings, other matters subject to the approval of the Board were handled in the form of written resolutions.

BOARD COMMITTEES

The Company has four principal Board committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee. Each of the Board committees operates under its terms of reference. The terms of reference of the Board committees are available on the websites of the Company and the Stock Exchange.

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, namely Mr. Zhu Lin, Mr. Ge Xuan and Mr. Ding Zhiping. Mr. Zhu Lin has appropriate accounting and financial management expertise and is the chairman of the Audit Committee. The primary duties of the Audit Committee include (i) making recommendations to our Board on the appointment, re-appointment and removal of external auditor; (ii) reviewing financial statements; (iii) providing material advice in respect of our financial reporting process; (iv) overseeing our internal control and risk management systems and audit process and discussing the risk management and internal control system with management to ensure that management has performed its duty to have effective systems; and (v) providing advice and comments to our Board on matters relating to corporate governance.

During the relevant meetings, the Audit Committee reviewed the interim results and report for six months ended 30 June 2020, significant issues on the financial reporting and compliance procedures.

Nomination Committee

The Company has established a Nomination Committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, namely Mr. Li Qing, Mr. Ge Xuan and Mr. Ding Zhiping. Mr. Li Qing has been appointed as the chairman of the Nomination Committee. The primary duties of the Nomination Committee include (i) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board; and (ii) reviewing and making recommendations to the Board on appointment of Directors and the management of the Board succession.

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

During the relevant meetings, the Nomination Committee considered, among others, the proposed appointment of a Director.

Nomination Policy

According to the Nomination Policy, in evaluating and selecting any candidate for directorship, the Nomination Committee would consider the criteria, including, among other things, character and integrity, qualifications (cultural and educational background, professional qualifications, skills, knowledge and experience and diversity aspects under the board diversity policy), any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and diversity, and willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s).

The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Directors and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship with a ranking of the candidates (if applicable) by order of preference based on the needs of the Company and reference check of each candidate.

Board Diversity Policy

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors when selecting the candidates to our Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural and education background, ethnicity and length of service. The ultimate decision of appointment will be based on merit and the contribution which the selected candidates will bring to our Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, human resources, information technology, accounting and financial management, risk management, corporate governance and evaluation of properties and assets. They obtained degrees in various majors including computer science, physics, electrical engineering, financial accounting, economic law and trade economics. We have three independent non-executive Directors with different industry backgrounds, representing more than one-third of the Board. Furthermore, our Board has a wide range of age, ranging from 42 years old to 61 years old. Taking into account our existing business model and specific needs as well as the different backgrounds of our Directors, the composition of our Board satisfies our board diversity policy.

Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members, namely, Mr. Ge Xuan, Mr. Ding Zhiping and Mr. Li Qing. Mr. Ge Xuan is the chairman of the committee. The primary duties of the Remuneration Committee include (i) making recommendations to the Board regarding the Group's policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; and (ii) making recommendations to the Board on the remuneration packages of the Directors and senior management and on employee benefit arrangements.

Risk Management Committee

The Company has established a Risk Management Committee with written terms of reference. The Risk Management Committee consists of three members, namely, Mr. Ding Zhiping, Mr. Li Qing and Mr. Zhu Lin. Mr. Ding Zhiping is the chairman of the committee. The primary duties of the Risk Management Committee include (i) establishing, maintaining and overseeing the execution of risk management policies and procedures of our Company and making recommendations to the Board accordingly; (ii) collecting and administrating the information of connected persons; (iii) managing and reviewing connected transactions, and controlling risks associated with connected transactions; (iv) reviewing information and disclosures of connected persons and connected transactions in public disclosure documents of our Company; (v) formulating the regulations and management regulations in relation to our connected transactions; and (vi) proposing to the Board for approval after deliberation of the connected transactions.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code since the Listing Date and up to 31 December 2020.

AUDITOR'S REMUNERATION

For the year ended 31 December 2020, the fees paid/payable to PricewaterhouseCoopers for audit, audit-related and non-audit services (primarily related to tax advisory services) are approximately RMB3.6 million and RMB0.6 million, respectively.

JOINT COMPANY SECRETARIES

Ms. Hao Lili and Ms. Zhang Xiao were appointed as the Company's joint secretaries. Ms. Zhang Xiao serves as the manager of SWCS Corporate Services Group (Hong Kong) Limited. Ms. Hao Lili is the primary contact of Ms. Zhang Xiao in the Company. The biographical details of Ms. Hao Lili and Ms. Zhang Xiao are set out under the section headed "Biographical details of Directors and Senior Management" in this annual report. Each of Ms. Hao Lili and Ms. Zhang Xiao participated in not less than 15 hours of relevant professional trainings in 2020 in accordance with Rule 3.29 of the Listing Rules.

The Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted a waiver from strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules in relation to the qualifications of one of our joint company secretaries, Ms. Hao Lili. Ms. Hao Lili will be assisted by Ms. Zhang Xiao during the period from 15 January 2021 to 15 July 2023.

ACCOUNTABILITY AND AUDIT

The Directors of the Company are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the Reporting Period. A statement from the auditor about its reporting responsibilities on the financial statements is set out under the section headed "Independent Auditor's Report" in this annual report. In preparing the financial statements for the year ended 31 December 2020, the Directors of the Company have selected suitable accounting policies and applied them consistently, made judgments and estimated that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

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

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control and risk management systems in order to safeguard the Group's assets and Shareholders' interests and reviewing the effectiveness of the Group's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate. The Board has also reviewed and recognized the effectiveness of such systems for the Reporting Period. Such systems are designed to manage and mitigate risks inherent in the Group's business faced by the Group to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Company has established the Audit Committee and the Risk Management Committee to monitor the implementation of risk management policies across the Company on an ongoing basis to ensure that the internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The Company also maintains an internal audit department, which is responsible for reviewing the effectiveness of internal controls and reporting to the Audit Committee on any issues identified. The internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures required to be implemented to resolve such issues. The internal audit department reports to the Audit Committee to ensure that any major issues identified thus are channeled to the committee on a timely basis. The Audit Committee then discusses the issues and reports to the board of directors, as necessary.

The Audit Committee, the Risk Management Committee, internal audit department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure that our policies and implementation are effective and sufficient.

The Board considers that the Group's risk management and internal control systems are adequate and effective for the year ended 31 December 2020.

Internal policies are put in place to ensure that inside information is adequately controlled. To ensure the confidentiality and the timely disclosure of inside information, all employees are provided with learning materials and guidelines regarding the handling and dissemination of inside information on a yearly basis. IT system controls are implemented to ensure the access to sensitive data is restricted to authorized personnel only.

Business Risk Management

The Group conducts business globally and faces business risks includes reputation risks, investment and acquisition risks, taxation risks and corporate responsibility and sustainability risks. The Board meets regularly and reviews the investment and expansion strategies, business plan, financial results, and key performance indicators of the Group to ensure that the business risks are controlled and managed, and potential risks can be identified.

Financial Risk Management

The Group has adopted financial risk management policies to control the Group's financial risk exposure, such as taxation risks, currency risks and financial reporting risks. Also, the Board monitors the financial results and key operating statistics with the assistance of the Group's internal financial reporting department on a monthly basis.

Information Risk Management and Data Protection

Sufficient maintenance, storage and protection of user data and other related information is critical to our success. We have implemented relevant internal procedures and controls to ensure that user data is protected, and that leakage and loss of such data is avoided.

Legal Compliance and Intellectual Property Rights Risk Management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. We continually review the implementation of our risk management policies and measures to ensure that our policies and implementation are effective and sufficient.

Human Resource Risk Management

We provide regular and specialized training tailored to the needs of our employees in different departments. We have in place multiple employee policies, including an employee handbook and the code of business conduct, approved by our management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanisms, negligence and corruption. We also have in place an anti-corruption policy to safeguard against any corruption within our Company.

Inside Information

Internal policies are put in place to ensure that inside information is adequately controlled. To ensure the confidentiality and the timely disclosure of inside information, all employees are provided with learning materials and guidelines regarding the handling and dissemination of inside information on a yearly basis. IT system controls are implemented to ensure the access to sensitive data is restricted to authorized personnel only.

DIVIDEND POLICY

Subject to Articles of Association and all applicable laws and regulations, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board. Any dividends the Company pays will be determined by the Board, taking into account factors including the Company's actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that the Board deems to be appropriate.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Articles of Association was conditionally adopted by the Board on 24 June 2020 and became effective on the Listing Date. A copy of the Articles of Association is available on the website of the Company and the Stock Exchange. Since the Listing Date up to the date of this annual report, there was no significant change in constitutional documents of the Company.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this annual report, the Group did not have any important events after the Reporting Period.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Pursuant to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, as at the date of deposit of the requisition, not less than one-tenth of the paid-up capital of the Company 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. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting forward proposals at general meeting

There are no provisions under the Articles of Association regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as Director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

If a Shareholder wishes to propose a person other than a Director for election as a Director at the Company's general meeting ("Proposal"), he/she should lodge a written notice setting out the Proposal and his/her contact details at the principal place of business of the Company in Hong Kong or the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited. The Proposal should include the biographical details of the proposed Director and a written notice signed by the proposed Director confirming his/her willingness to be elected, the accuracy and completeness of his/her biographical details.

Enquiries to the Board

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

Address: 4/F, No. 8 Hangxing Science Park, No.11 HePingLi East Street, Dongcheng District, Beijing, PRC

Attention: Office of the Board

The Company will not normally deal with verbal or anonymous enquiries. The Company will arrange designated persons to respond to the relevant written enquiries in a timely manner.

On behalf of the Board
Li Qing
Chairman

Beijing, China, 29 March 2021

To the Shareholders of Archosaur Games Inc.
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Archosaur Games Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 71 to 162, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

Key audit matter identified in our audit is related to revenue recognition – Estimates of lifespan of in-game virtual items with reference to expected playing period of paying players ("Player Relationship Period") in the Group's self-operated online game revenue.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition-Estimates of expected Player Relationship Period in the Group's self-operated online game revenue Refer to Note 2.23, Note 4(a) and Note 5 to the consolidated financial statements. During the year ended 31 December 2020, the Group's revenue from self-operated online games amounted to approximately RMB611.5 million. It was mainly derived from the sales of in-game virtual items. The in-game virtual items sold by the Group are categorised either as consumable or durable in nature. Revenue derived from consumable in-game virtual items is recognised once they are consumed or over the period that they are expiring, while revenue derived from durable in-game virtual items is recognised ratably over the lifespan of in-game virtual items with reference to the expected Player Relationship Period, on a game by game basis. The determination of the expected Player Relationship Period for relevant in-game virtual items requires significant judgements and estimates by the management. These judgements and estimates include (i) the determination of key assumptions applied in the expected Player Relationship Period, including but not limited to the games profile (including the observation of historical paying players' behaviour with reference to their log-in records, churn rates, and games life-cycle), target audience and players of different demographics groups; and (ii) the identification of events that may trigger changes in the expected Player Relationship Period.	We performed the following procedures to address this key audit matter: We obtained an understanding of the management's internal control and assessment process of the estimation of the expected Player Relationship Period and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of the inherent risk factors such as subjectivity. We evaluated and tested, on a sample basis, key controls in respect of the recognition of revenue from sales of in-game virtual items, including management's review and approval of (i) determination of the estimated Player Relationship Period of new games prior to their launches; and (ii) changes in the estimated Player Relationship Period of existing games based on periodic reassessment on any indications triggering such changes. We discussed with management and evaluated the appropriateness of their judgements and estimations made in determining and re-assessing the expected Player Relationship Period including the games profile, target audience and players of different demographics groups of the relevant games with reference to the historical data, market data and practice.

Key Audit Matter	How our audit addressed the Key Audit Matter
We focused on auditing the determination of the expected Player Relationship Period of each game because it is subject to high degree of estimation uncertainty. The inherent risk in relation to the determination of the expected Player Relationship Period is considered significant due to the subjectivity of significant assumptions used.	We assessed, on a sample basis, the accuracy and the integrity of the key data inputs used in the determination of the expected Player Relationship Period, including the observation of historical paying players' behaviour with references to their log-in records and calculation of churn rates. We also tested the information system logic for generation of reports, and checked, on a sample basis, the monthly computation of revenue recognised on selected games based on reports generated from the Group's information system. Based on the procedures performed, we considered that the significant judgements and estimates adopted by management in determining the expected Player Relationship Periods are supported by the evidence obtained.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	Note	Year ended 31 December	
		2020	2019
		RMB'000	RMB'000
Revenue	5	**1,208,842**	1,067,246
Cost of revenue	8	**(282,936)**	(177,623)
Gross profit		**925,906**	889,623
Research and development expenses	8	**(540,433)**	(389,224)
Selling and marketing expenses	8	**(160,966)**	(114,476)
Administrative expenses	8	**(138,237)**	(52,976)
Net impairment losses on financial assets	8	**(1,816)**	(4,249)
Other income	6	**10,790**	14,099
Other (losses)/gains, net	7	**(12,130)**	24,055
Operating profit		**83,114**	366,852
Finance income	10	**12,362**	8,605
Finance costs	10	**(13,385)**	(17,928)
Finance costs, net	10	**(1,023)**	(9,323)
Fair value changes on convertible redeemable preferred shares	26	**(856,843)**	(212,455)
Share of results of investments accounted for using the equity method	11	**(526)**	–
(Loss)/Profit before income tax		**(775,278)**	145,074
Income tax credit/(expense)	12	**16,256**	(24,709)
(Loss)/Profit for the year		**(759,022)**	120,365
(Loss)/Profit attributable to:			
– Owners of the Company		**(759,022)**	119,354
– Non-controlling interests		**–**	1,011
		(759,022)	120,365
(Loss)/Earnings per share attributable to owners of the Company for the year (in RMB/share)	13		
– Basic		**(1.42)**	0.34
– Diluted		**(1.42)**	0.34

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
(Loss)/Profit for the year		**(759,022)**	120,365
Other comprehensive (loss)/income, net of tax:			
Items that may be reclassified to profit or loss			
Currency translation differences		**(25,757)**	342
Items that will not be reclassified to profit or loss			
Currency translation differences		**(147,440)**	–
Fair value changes on convertible redeemable preferred shares due to own credit risk	26	**(1,873)**	(3,455)
Total comprehensive (loss)/income for the year		**(934,092)**	117,252
Attributable to:			
– Owners of the Company		**(934,092)**	116,241
– Non-controlling interests		**–**	1,011
		(934,092)	117,252

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2020

	Note	As at 31 December	
		2020	2019
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	15	**18,413**	8,708
Right-of-use assets	17	**166,744**	41,968
Intangible assets	16	**37,990**	44,033
Investments accounted for using the equity method	11	**31,474**	–
Prepayment, other receivables and other assets	20	**24,509**	20,261
Financial assets at fair value through profit or loss	21	**5,000**	–
Deferred tax assets	28	**13,692**	7,188
		297,822	122,158
Current assets			
Trade receivables	19	**328,682**	545,775
Prepayment, other receivables and other assets	20	**39,955**	33,318
Financial assets at fair value through profit or loss	21	**201,039**	330,968
Term deposits	22(b)	**78,627**	142,663
Cash and cash equivalents	22(a)	**3,055,711**	728,318
		3,704,014	1,781,042
Total assets		**4,001,836**	1,903,200
Equity and liabilities			
Equity attributable to owners of the Company			
Combined capital		**–**	577,975
Share capital	23	**55**	–
Share premium	23	**6,907,441**	–
Other reserves	24	**(1,794,051)**	189,877
Accumulated losses		**(1,564,160)**	(597,750)
		3,549,285	170,102
Non-controlling interests		**–**	–
Total equity		**3,549,285**	170,102

Consolidated Balance Sheet

As at 31 December 2020

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
Liabilities			
Non-current liabilities			
Contract liabilities	5	**9,502**	10,171
Lease liabilities	17	**132,777**	22,643
Convertible redeemable preferred shares	26	**–**	1,259,648
Other non-current liabilities	27	**–**	174,195
		142,279	1,466,657
Current liabilities			
Trade and other payables	29	**206,417**	156,864
Contract liabilities	5	**65,249**	62,375
Current income tax liabilities		**6,540**	32,582
Lease liabilities	17	**32,066**	14,620
		310,272	266,441
Total liabilities		**452,551**	1,733,098
Total equity and liabilities		**4,001,836**	1,903,200

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 71 to 162 were approved by the Board of Directors on 29 March 2021 and were signed on its behalf.

Li Qing
Director

Bai Wei
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Combined capital RMB'000	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 January 2020		577,975	–	–	189,877	(597,750)	170,102
Comprehensive loss							
Loss for the year		–	–	–	–	(759,022)	(759,022)
Other comprehensive loss							
Items that may be reclassified to profit or loss							
Currency translation differences		–	–	–	(25,757)	–	(25,757)
Items that will not be reclassified to profit or loss							
Currency translation differences		–	–	–	(147,440)	–	(147,440)
Fair value changes on convertible redeemable preferred shares due to own credit risk	26	–	–	–	(1,873)	–	(1,873)
Total comprehensive loss		–	–	–	(175,070)	(759,022)	(934,092)
Transactions with owners in their capacity as owners							
Issuance of ordinary shares for Re-organization	23, 24	(577,975)	4	2,433,890	(1,855,915)	–	4
Re-designation of ordinary shares into Series C-1 preferred shares	23	–	(1)	(409,649)	–	–	(409,650)
Share-based compensation	25	–	–	–	50,840	–	50,840
Conversion of preferred shares and redemption liability to ordinary shares	23	–	3	2,718,461	–	–	2,718,464
Capitalization issue	23	–	33	(33)	–	–	–
Issuance of ordinary shares relating to initial public offering, net of underwriting commission and other issuance costs	23	–	16	2,164,772	–	–	2,164,788
Distribution to owners	24	–	–	–	(3,783)	3,783	–
Dividends	14	–	–	–	–	(211,171)	(211,171)
Total transactions with owners in their capacity as owners		(577,975)	55	6,907,441	(1,808,858)	(207,388)	4,313,275
Balance at 31 December 2020		–	55	6,907,441	(1,794,051)	(1,564,160)	3,549,285

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Combined capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the Company					
Balance at 1 January 2019		8,111	197,990	(152,240)	53,861	(1,011)	52,850
Comprehensive income							
Profit for the year		–	–	119,354	119,354	1,011	120,365
Other comprehensive income/(loss)							
Items that may be reclassified to profit or loss							
Currency translation differences		–	342	–	342	–	342
Items that will not be reclassified to profit or loss							
Fair value changes on convertible redeemable preferred shares due to own credit risk	26	–	(3,455)	–	(3,455)	–	(3,455)
Total comprehensive income		–	(3,113)	119,354	116,241	1,011	117,252
Transactions with owners in their capacity as owners							
Share reformation		569,864	(5,000)	(564,864)	–	–	–
Total transactions with owners in their capacity as owners		569,864	(5,000)	(564,864)	–	–	–
Balance at 31 December 2019		577,975	189,877	(597,750)	170,102	–	170,102

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Note	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	30	**467,413**	103,260
Interest received		**7,637**	7,120
Income tax paid		**(18,239)**	(9,792)
Net cash generated from operating activities		**456,811**	100,588
Cash flows from investing activities			
Purchases of property, plant and equipment		**(14,172)**	(5,720)
Purchases of intangible assets		**(5,403)**	(20,070)
Purchases of wealth management products classified as fair value through profit or loss assets	21	**(2,426,450)**	(2,575,030)
Payment for an investment fund designated as fair value through profit or loss		**(5,000)**	–
Payment for investments accounted for using the equity method	11	**(32,000)**	–
Placements of restricted cash		**(2,832)**	–
Receipt from maturity of restricted cash		**2,832**	–
Purchases of term deposits		**(83,264)**	(142,663)
Proceeds from maturity of wealth management products classified as fair value through profit or loss assets		**2,554,440**	2,776,740
Proceeds from maturity of term deposits		**144,231**	–
Interest income from term deposits		**1,931**	–
Investment income from wealth management products		**19,293**	25,158
Net cash generated from investing activities		**153,606**	58,415

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Cash flows from financing activities			
Proceeds from issuance of convertible redeemable preferred shares	26	**100,000**	–
Proceeds from issuance of ordinary shares relating to the initial public offering		**2,256,041**	–
Principal elements of lease payments	30	**(25,133)**	(22,527)
Dividends paid	14, 26, 27	**(332,500)**	–
Interest paid	17	**(5,977)**	(1,097)
Payment of listing expenses		**(90,973)**	(432)
Net cash generated from/(used in) financing activities		**1,901,458**	(24,056)
Net increase in cash and cash equivalents		**2,511,875**	134,947
Cash and cash equivalents at beginning of the year		**728,318**	588,391
Exchange (losses)/gains on cash and cash equivalents		**(184,482)**	4,980
Cash and cash equivalents at end of the year	22	**3,055,711**	728,318

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION AND REORGANIZATION

1.1 General information

Archosaur Games Inc. (the "Company") was incorporated in the Cayman Islands on 2 January 2020 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

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

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15 July 2020 ("Listing", "IPO").

The consolidated financial statements for the year ended 31 December 2020 are presented in Renminbi and all values are rounded to the nearest thousand (RMB'000) unless otherwise indicated. The consolidated financial statements for the year ended 31 December 2020 have been approved on 29 March 2021.

1.2 History of the Group

Prior to the incorporation of the Company and completion of the Group reorganization as described in Note 1.3 below ("Reorganization"), the Group's Business was carried out through Tianjin Loong Technology Co., Ltd. (祖龍(天津)科技股份有限公司) ("Tianjin Loong"), and its subsidiaries, including Beijing Fantasy Mermaid Technology Limited (北京幻想美人魚科技有限公司) ("Beijing Fantasy Mermaid"), Chengdu Fantasy Mermaid Technology Limited (成都幻想美人魚科技有限公司) ("Chengdu Fantasy Mermaid"), Huai'an Loong Technology Co., Ltd. (淮安祖龍科技有限公司) ("Huai'an Loong"), Horgos Loong Technology Development Co., Ltd. (霍爾果斯祖龍科技發展有限公司) ("Horgos Loong"), Famous Game Company Limited (名遊有限公司) ("Famous Game") and Famous Heart Limited (名心有限公司) ("Famous Heart") (collectively, the "Operating Entities").

Tianjin Loong was established in the PRC as a limited liability company on 15 April 2015. It was founded and initially owned as to 100% by Beijing Loong Game Technology Limited ("Beijing Loong"), which was in turn owned as to 81.96%, 6.94%, 5.55% and 5.55% by Mr. Li Qing, Mr. Zhang Yu, Mr. Xiang Nan, and Mr. Bai Wei, respectively.

On 18 August 2015, the registered capital of Tianjin Loong increased from RMB7 million to RMB10 million with the additional capital contributed by Perfect World Games Co., Ltd. ("Perfect World Games"), which led to an increase of convertible redeemable preferred shares. Upon completion of such investment by Perfect World Games, Tianjin Loong was owned as to 70.00% by Beijing Loong and 30.00% by Perfect World Games.

1 GENERAL INFORMATION AND REORGANIZATION *(Continued)*

1.2 History of the Group *(Continued)*

On 11 January 2017, Tianjin Loong, Beijing Loong, Linzhi Lichuang Information Technology Co., Ltd. ("Linzhi Lichuang") and Ningbo Long Ren Enterprise Management Partnership (Limited Partnership) ("Ningbo Longren") entered into a capital increase agreement, which increased the combined capital and convertible redeemable preferred shares. Upon the completion of such agreement, Tianjin Loong was owned as to 54.81%, 23.49%, 13.00% and 8.70% by Beijing Loong, Perfect World Games, Linzhi Lichuang and Ningbo Longren, respectively.

On 24 August 2018, Beijing Loong and Perfect World Games entered into an equity transfer agreement, pursuant to which Perfect World Games agreed to transfer 4.49% of equity interests in Tianjin Loong to Beijing Loong. Upon the completion of such equity transfer, Tianjin Loong was owned as to 59.30%, 19.00%, 13.00% and 8.70% by Beijing Loong, Perfect World Games, Linzhi Lichuang and Ningbo Longren, respectively.

On 14 January 2019, Tianjin Loong was converted into a joint stock limited company and its registered capital was increase to RMB100 million. The additional capital was contributed by its registered shareholders in proportion to their respective percentage of equity interest.

On 2 December 2019, additional capital was contributed by Ningbo Meishan Bonded Port Qian Ce Enterprise Management Partnership (Limited Partnership) ("Ningbo Qiance") to Tianjin Loong. Upon completion of the capital contribution, Tianjin Loong was owned as to 56.34%, 18.05%, 12.35%, 8.27% and 5.00% by Beijing Loong, Perfect World Games, Linzhi Lichuang, Ningbo Longren and Ningbo Qiance, respectively.

1.3 Reorganization of the Group

In preparing for the listing of the Company's shares on the Stock Exchange, the Group underwent the Reorganization, pursuant to which the beneficial interests in the companies engaged in the Group's Business were transferred to the Company. Details of the Reorganization are set out below:

(i) Offshore reorganization

In late 2019, the respective ultimate beneficial owners of Beijing Loong, Ningbo Longren and Ningbo Qiance had incorporated a series of companies in the British Virgin Islands ("BVI"), including Cresc Chorus Limited ("Cresc Chorus"), Green Particle Limited ("Green Particle") and Smooth Ebony Limited ("Smooth Ebony"). Smooth Ebony acts as the holding company to hold the shares on trust under the restricted share unit ("RSU") scheme adopted by the Company on 1 April 2020 ("RSU Scheme") (Note 25).

On 2 January 2020, the Company was incorporated as an exempted company with limited liabilities in the Cayman Islands with an authorized share capital of United States Dollar ("U. S. dollars", "US$") 50,000 divided into 5,000,000,000 shares with a par value of US$0.00001 each. On the same day, following the Company's issue of one share to Harneys Fiduciary (Cayman) Limited, an independent third party, which was subsequently transferred to Cresc Chorus, the Company was owned to as (i) 56,335,000 shares by Cresc Chorus; (ii) 8,265,000 shares by Green Particle; and (iii) 5,000,000 shares by Smooth Ebony.

1 GENERAL INFORMATION AND REORGANIZATION *(Continued)*

1.3 Reorganization of the Group *(Continued)*

(i) ***Offshore reorganization*** *(Continued)*

On 4 March 2020, the Company, its subsidiaries, Tianjin Loong, Huai'an Loong and the offshore investment vehicles of Tianjin Loong's registered shareholders (namely Cresc Chorus, Green Particle, Smooth Ebony, Perfect World Interactive Entertainment Co., Ltd. ("Perfect World Interactive") and Image Frame Investment (HK) Limited ("Image Frame"), (collectively, the "Offshore Shareholders")), among others, entered into the Offshore Share Subscription Agreement and the Offshore Shareholders Agreement. Pursuant to the Offshore Share Subscription Agreement, the Company has allotted and Perfect World Interactive and Image Frame have subscribed for 18,050,000 Series A preferred shares and 12,350,000 Series B preferred shares for nominal consideration of US$1 each, respectively, to substantially reflect the rights, obligations and shareholdings in Tianjin Loong held by their affiliates (namely, Perfect World Games and Linzhi Lichuang, respectively) and their respective rights reflected in the Onshore Shareholders Agreement.

On 4 March 2020, pursuant to the Offshore Share Purchase Agreement, Cresc Chorus as vendor agreed to sell and each of Perfect World Interactive and Image Frame as purchaser agreed to purchase 4,500,000 ordinary shares of the Company for a consideration of RMB220 million each. Such shares have been re-designated into Series C-1 preferred shares upon closing, which would be recognised as convertible redeemable preferred shares. The consideration received by Cresc Chorus was determined based on the fair value of Series C-1 preferred shares. The fair value of the Series C-1 preferred shares over the fair value of the transferred ordinary shares would be deemed as share-based compensation and recognised as expenses in 2020.

On the same day, Perfect World Interactive and Image Frame, among others, entered into the Offshore Share Subscription Agreement pursuant to which they each further subscribed for 1,020,408 Series C-2 preferred shares for U.S. dollars equivalent of RMB50 million, which would be recognised as convertible redeemable preferred shares.

On 7 January 2020, Archosaur Entertainment Limited ("Archosaur Entertainment") was incorporated in the BVI as a BVI business company with limited liability with the initial authorized share capital of US$50,000 divided into 50,000 shares of US$1.0 each. Upon incorporation, one share, representing the entire issued share capital of Archosaur Entertainment, was issued and allotted to the Company at par value. Upon the completion of such issue and allotment, Archosaur Entertainment became a directly wholly-owned subsidiary of the Company.

Prior to the Reorganization, Famous Heart and Famous Game were wholly-owned by Tianjin Loong. For the purpose of Reorganization, on 3 February 2020, Tianjin Loong transferred all of its shares in Famous Game to Archosaur Entertainment. On 4 March 2020, Tianjin Loong transferred all of its shares in Famous Heart to Archosaur Entertainment.

1 GENERAL INFORMATION AND REORGANIZATION *(Continued)*

1.3 Reorganization of the Group *(Continued)*

(ii) Onshore reorganization

On 14 January 2020, Tianjin Loong transferred 2.00% of the equity interest of Beijing Fantasy Mermaid to Mr. Liu Yongji, being an independent third party. On 10 March 2020, pursuant to the equity transfer agreement entered into between Famous Game as transferee and each of Tianjin Loong and Mr. Liu Yongji as transferor, Famous Game acquired 100% of the equity interest of Beijing Fantasy Mermaid, after which Beijing Fantasy Mermaid becomes a wholly-owned foreign enterprise in the PRC and an indirectly wholly-owned subsidiary of the Company.

From 16 January 2020, Tianjin Loong and Huai'an Loong (collectively, the "Consolidated Affiliated Entities") commenced the transfer of their non-restricted business. Physical assets (such as computer equipment and facilities), intellectual properties, personnel and business contracts relating to the operation of non-restricted business were transferred to Beijing Fantasy Mermaid and Chengdu Fantasy Mermaid.

Pursuant to a series of contractual arrangements dated 10 March 2020 (collectively, the "Contractual Arrangements") entered into by, among others, Beijing Fantasy Mermaid, Tianjin Loong and its registered shareholders, Beijing Fantasy Mermaid is able to exercise and maintain control over the operation and to receive substantially all the economic benefit of the business and operations of the Consolidated Affiliated Entities. Accordingly, the Consolidated Affiliated Entities are treated as controlled structured entities of Beijing Fantasy Mermaid and ultimately controlled and consolidated by the Company. Further details of the Contractual Arrangements are set out in Note 2.2(a)(i) below.

Upon the completion of the Reorganization, the Company became the holding company of the other companies comprising the Group.

As at 31 December 2020, the Company had direct or indirect interests in the following subsidiaries:

1 GENERAL INFORMATION AND REORGANIZATION *(Continued)*

1.3 Reorganization of the Group *(Continued)*

Name of subsidiaries	Nature of subsidiaries	Place and date of incorporation/ establishment	Registered capital	Equity interest held as at 31 December 2019	2020	Principal activities
Directly held by the Company						
Archosaur Entertainment	British Virgin Islands, limited liability company	British Virgin Islands/07-Jan-20	US$50,000	N/A	**100%**	Investment holding, the BVI
Indirectly held by the Company						
Beijing Fantasy Mermaid	People's Republic of China, limited liability company	Beijing, China/09-Sep-14	RMB10,000,000	100%	**100%**	Mobile game development, the PRC
Famous Heart	Hong Kong, limited liability company	Hong Kong/23-Oct-14	Hong Kong Dollar ("HK$")8,000,000	100%	**100%**	Overseas mobile game operation, Hong Kong
Horgos Loong	People's Republic of China, limited liability company	Horgos, China/29-Mar-17	RMB10,000,000	100%	**N/A (Note (a))**	Mobile game development, the PRC
Famous Game	Hong Kong, limited liability company	Hong Kong/05-Aug-19	US$10,000,000	100%	**100%**	Mobile game operation, Hong Kong
Chengdu Fantasy Mermaid	People's Republic of China, limited liability company	Chengdu, China/10-Dec-19	RMB10,000,000	100%	**100%**	Mobile game development, the PRC
Indirectly controlled by the Company through Contractual Arrangements						
Tianjin Loong	People's Republic of China, joint stock limited company	Tianjin, China/15-Apr-15	RMB105,263,157	100%	**100%**	Mobile game operation, the PRC
Huai'an Loong	People's Republic of China, limited liability company	Huai'an, China/19-Aug-16	RMB10,000,000	100%	**100%**	Mobile game operation, the PRC
Hai'nan Loong Technology Co., Ltd. (海南祖龍科技有限公司)	People's Republic of China, limited liability company	Hai'nan, China/14-Apr-20	RMB10,000,000	N/A	**100%**	Mobile game operation, the PRC
Shanghai Zuyun Technology Co., Ltd. (上海祖昀科技有限公司)	People's Republic of China, limited liability company	Shanghai, China/23-Nov-20	RMB1,000,000	N/A	**100%**	Mobile game operation, the PRC

Note:

(a) Deregistered on 1 April 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(a) Compliance with IFRSs

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

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

(b) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

Standards and amendments	**Effective for annual periods beginning on or after**
Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to IAS 1 and IAS 8 – Definition of Material	1 January 2020
Amendments to IFRS 3 – Definition of a Business	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform	1 January 2020
Amendment to IFRS 16 – COVID-19-Related Rent Concessions	1 June 2020 (Note (i))

Note:

(i) Early application of the amendment is permitted.

Other than as explained below regarding the impact of Amendment to IFRS 16 – COVID-19-Related Rent Concessions, the adoption of other applicable new and amended standards above did not have any material effect on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New and amended standards adopted by the Group (Continued)

Adoption of Amendment to IFRS 16 – COVID-19-Related Rent Concessions

The Group has early adopted Amendment to IFRS 16 – COVID-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: (a) 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; (b) any reduction in lease payments affects only payments due on or before 30 June 2021; and (c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totalling RMB1,883,000 have been accounted for as negative variable lease payments and recognised in the statement of profit or loss for the year ended 31 December 2020 (Note 8), with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at 1 January 2020.

(c) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments	Effective for annual periods beginning on or after
Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	1 January 2022
Reference to the Conceptual Framework – Amendments to IFRS 3	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
IFRS 17 Insurance Contracts	1 January 2023
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2023
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	To be determined

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

(a) Consolidation

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.2 (a) (ii)).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

(i) Subsidiaries controlled through Contractual Arrangements

As described in Note 1.3, the wholly-owned subsidiary of the Company, Beijing Fantasy Mermaid, has entered into the Contractual Agreements, including Exclusive Business Cooperation Arrangements, Exclusive Option Agreement, Equity Pledge Agreement, and Powers of Attorney, with Tianjin Loong and its equity holders, which enable Beijing Fantasy Mermaid and the Group to:

- exercise effective control over the Consolidated Affiliated Entities;
- exercise equity holders' voting rights of the Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities in consideration for the technical support, consulting and other services provided by Beijing Fantasy Mermaid;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Tianjin Loong from the respective equity holders at a minimum purchase price permitted under PRC laws and regulations. Beijing Fantasy Mermaid may exercise such options at any time until it has acquired all equity interests of Tianjin Loong;
- obtain a pledge over the entire equity interests of Tianjin Loong from its respective equity holders as collateral security for all of Tianjin Loong's payments due to Beijing Fantasy Mermaid and to secure performance of Tianjin Loong's obligation under the Contractual Arrangements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

(a) Consolidation (Continued)

(i) Subsidiaries controlled through Contractual Arrangements (Continued)

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

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

(ii) Business combination

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

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

Acquisition-related costs are expensed as incurred.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

(a) Consolidation *(Continued)*

(ii) Business combination (Continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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

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

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

(iv) Disposal of subsidiaries

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

(b) Separate financial statements

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

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

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in OCI of the investee in OCI. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.8.

2.4 Segment reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

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

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

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

(c) Group companies *(Continued)*

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in OCI.

2.6 Property, plant and equipment

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

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

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives or in the case of leasehold improvements, the shorter lease term, as follows:

Office equipment	4 years
Furniture	4 years
Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

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

2.7 Intangible assets

(a) Software

Acquired computer software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of three to ten years, and recorded in amortization within operating expenses in the consolidated statement of profit or loss. Length of estimated useful life is determined to be the shorter of the period of contractual rights or estimated period during which such software can bring economic benefits to the Group.

(b) Copyrights and game licenses

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets *(Continued)*

(b) Copyrights and game licenses *(Continued)*

Under certain online mobile games arrangements entered between the Group and the intellectual property ("IP") holders, the Group pays non-refundable upfront licensing fees to the IP holders as the Group is entitled to use such IP to develop online mobile games. The Group recognizes the licensing fee as an intangible asset. This intangible asset is amortized on a straight-line basis upon the commercial launch of the related online mobile games over the shorter of the expected economic life or license period of the relevant online mobile games ranging from two to five years.

(c) Trademark and domain names

Trademark and domain names are initially recognized and measured at costs incurred to acquire and bring to use them. The costs are amortized on a straight-line basis over the trademark and domain names' estimated useful lives of five to ten years and recorded in amortization within operating expenses in the consolidated statement of profit or loss. Length of estimated useful life is determined to be the period of effective registration during which such trademark and domain names can bring economic benefits to the Group.

2.8 Impairment of non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

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

- those to be measured at amortised cost.

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

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

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

(ii) Recognition and derecognition

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

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Investments and other financial assets *(Continued)*

(iii) ***Measurement*** *(Continued)*

Debt instruments

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other (losses)/gains, net", together with foreign exchange gains and losses. Impairment losses are presented in net impairment losses on financial assets in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "other (losses)/gains, net", Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "other (losses)/gains, net", and impairment losses are presented in "net impairment losses on financial assets" in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "other (losses)/gains, net" in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Investments and other financial assets *(Continued)*

(iii) Measurement (Continued)

Equity instruments

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

Changes in the fair value of financial assets at FVPL are recognised in "other (losses)/gains, net" in the statements of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1 for further details.

2.10 Offsetting financial instruments

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

2.11 Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in "other (losses)/gains, net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Trade and other receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 19 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2.13 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Convertible redeemable preferred shares are classified as liabilities (Note 26).

2.15 Trade payables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Borrowings and borrowing costs

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

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

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

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

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

2.17 Convertible redeemable preferred shares

Capitals with preferred rights ("Preferred Shares") issued by the Group are redeemable upon occurrence of certain future events. These instruments are also attached with a conversion option.

The Group designated the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. The component of fair value changes relating to the Company's own credit risk is recognized in OCI. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realised. Fair value changes relating to market risk are recognized in profit or loss.

The Preferred Shares were classified as non-current liabilities unless the Preferred Shares holders can demand the Company to redeem the Preferred Shares within 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Redemption liability

Redemption liability arises from put options granted by the Group, where the counterparties have the right to request the Group to purchase the equity instrument held by the counterparty for cash when certain conditions are met. As the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put options, the Group recognized a financial liability at the present value of the estimated future cash outflows of the redemption obligation.

Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate, and the adjustments will be recognized in the consolidated statement of profit or loss. If the put option expires without delivery, the carrying amount of the liability is reclassified to equity. The redemption liabilities are classified as non-current liabilities unless the put options can be exercised within 12 months after the end of the reporting period.

2.19 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity, respectively.

2.20 Employee benefits

(a) Pension and social obligations

The Group's subsidiaries operating in the PRC have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the consolidated statement of profit or loss as and when incurred. The Group has no legal or constructive obligations to pay further contributions.

The Company does not operate any other defined contribution schemes, and as such, there is no forfeited contributions, nor does the Company employ any actuary for defined benefit plans.

(b) Employee leave entitlements

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

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

(c) Bonus plans

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Equity-settled share-based payments arrangements

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

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

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

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

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

2.22 Provisions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition

The Group evaluated and recognized revenue based on a five step approach:

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

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

(a) Online game revenue

The Group is a mobile and PC game developer and also a publisher. The Group's online game revenue are generated primarily from its integrated game publishing and operation business, i.e. game publishing by the Group's own distribution channels or other distribution channels, and from its development and licensing business.

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

The Group reports revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The Group is a principal if it controls the specified product or service before that product or service is transferred to a customer or it has a right to direct others to provide the product or service to the customer on the Group's behalf. Indicators that the Group is a principal include but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

(a) Online game revenue *(Continued)*

The Group acts as an agent

(i) Revenue from development and licensing

The Group derives revenue from licensing its self-developed games to third-party game publishers ("Publishers"), who operate the Group's online games in defined regions or countries within a specific period. The licensing fees normally comprise of non-refundable fixed licensing fees (either up-front or under specific payment schedule) and variable licensing fees calculated based on prescribed terms.

The Group has evaluated the respective roles and responsibilities of the Group and the Publishers in the delivery of game experience to players and concluded that the Publishers have the primary responsibility in these licensing arrangements as they are responsible for marketing and promotion of the games in the market, hosting the game servers, determining the price of the in-game virtual items, selection of distribution and payment channels and providing customer services, and therefore have exposure to the significant risks and rewards associated with the operation of these games under the licensing arrangements. Accordingly, the variable licensing fees (revenue share), which are calculated based on a prescribed percentage of the proceeds received by the Publishers from players, are recognized as revenue on a net basis when the sales occur. The non-refundable fixed licensing fees are initially recorded in contract liability and are then recognized as revenue rateably over the license period as they are considered to be right-to-access arrangements.

The Group acts as a principal

(ii) Revenue from integrated game publishing and operation

The Group also operates its self-developed games through its own distribution channels, or other distribution channels, including various mobile application stores and software website (collectively referred to as "Distribution Channels"). The Group sells the in-game tokens to its game players via payment channels and Distribution Channels. Therefore, the payment channels and Distribution Channels are entitled to commissions which are withheld and deducted from the gross proceeds collected from the game players, with the net amounts remitted to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

(a) ***Online game revenue*** (Continued)

The Group acts as a principal *(Continued)*

(ii) Revenue from integrated game publishing and operation (Continued)

The Group takes primary responsibilities of game development and updates, price determination of in-game virtual items, game operation, including providing customer services, hosting game servers. The Group considered itself as a principal in this arrangement and records the online game revenue on a gross basis. Commissions paid to Distribution Channels and payment channels are recorded as cost of revenue.

Upon the sales of in-game virtual items, the Group typically has an implied obligation to provide the service which enables the in-game virtual items to be displayed and consumed in the respective games. As a result, the proceeds from the sales of in-game virtual items are initially recorded in contract liability and are then recognised as revenue subsequently only when the services have been rendered either upon consumption or ratably over the average playing period of Paying Players ("Player Relationship Period"). For the purposes of determining when services have been rendered to the respective Paying Players, the Group has determined the following:

- Consumable items represent in-game virtual items that can be consumed by game player actions or expire over a predetermined expiration time. The Group keeps track of the consumption or expiration of all the consumable items in the game. Revenue in relation to consumable items are recognized (as a release from contract liability) after they are consumed or over the period that they are expiring, as the Group's obligations in connection with such items have been fully rendered to the players after their consumption or expiration.

- Durable items represent in-game virtual items that are accessible by the players as long as they play the game. The Group will provide continuous services in connection with these durable items until these items are no longer used by the game players. Revenues in relation to the durable items are recognized over Player Relationship Period, which represents the best estimates of the average lifespan of durable virtual items for the applicable game.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

(b) Revenue from online game technology support and upgrade services

<u>The Group acts as an agent</u>

The Group provides technology support and upgrade services to other game developers, and earns services revenue from them based on a prescribed rate. The variable fees which are contingent upon future events (future cash paid by game players collected by other game developers) are recognized when the contingency is met provided that collectability is reasonably assured.

(c) Contract liabilities and contract costs

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities mainly comprise of revenue share received in advance from customers, the unamortized revenue from sales of in-game virtual items for online games and the non-refundable fixed licensing fee paid by licensees, where there is still an implied obligation to be provided by the Group and will be recognized as revenue when all of the revenue recognition criteria are met.

Contract costs are mainly related to contract fulfilment costs, which primarily consist of unamortized commissions charged by the Distribution Channels. They are capitalized as contract fulfilment costs and amortized over their respective Player Relationship Periods, which is consistent with the pattern of recognition of the associated revenue.

2.24 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in profit or loss. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Research and development costs

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

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

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

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

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

Development costs not satisfying the above criteria are recognized in the profit or loss as incurred.

Development costs previously recognized as expenses are not recognized as an asset in a subsequent period.

During the years ended 31 December 2020 and 2019, the Group did not capitalize any development costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.27 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Leases *(Continued)*

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Tianjin Loong, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of properties are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.28 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally through overseas publishers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US$. Foreign exchange risk primarily arises from recognized assets and liabilities denominated in a currency other than the functional currency of the Group's subsidiaries. The Group does not hedge against any fluctuation in foreign currency.

The carrying amount in RMB equivalents of the financial assets held by the Group denominated in the currencies other than their respective functional currencies are summarised below:

	As at 31 December			
	2020		2019	
	HK$	**US$**	HK$	US$
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash	**238,945**	**201,760**	59,002	160,960
Trade receivables	**9,828**	**3,373**	5,107	11,962
Term deposits	**–**	**78,299**	–	142,314
	248,773	**283,432**	64,109	315,236

If foreign currencies had strengthened/weakened by 5% against RMB with all other variables held constant, the (loss)/profit for the year would have been approximately RMB24,725,000 lower/higher and RMB16,074,000 higher/lower for the years ended 31 December 2020 and 2019, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in currencies other than RMB.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Price risk

The Group is exposed to price risk in respect of investments held by the Group that are classified on the consolidated balance sheet at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The sensitivity analysis is determined based on the exposure to price risk of financial assets at fair value through profit or loss at the end of the reporting period. If the fair values of the respective instruments held by the Group had been 1% higher/lower, the (loss)/profit for the years ended 31 December 2020 and 2019 would have been approximately RMB1,751,000 lower/higher, and RMB3,310,000 higher/lower, respectively.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities other than cash and cash equivalents and term deposits, the Group's income and cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

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

(i) Risk management

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

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

The Group is also exposed to credit risk in relation to debt investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- trade receivables; and
- other receivables.

While cash and cash equivalents and term deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

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

The expected loss rates are based on the historical payment profiles, historical loss rates and data published by external credit rating institution, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified GDP of the countries in which it provides its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) ***Credit risk*** *(Continued)*

(ii) Impairment of financial assets (Continued)

Trade receivables *(Continued)*

On that basis, the loss allowances as at 31 December 2020 and 2019 were determined as follows:

Credit rating as at 31 December 2020	**Expected credit loss rate**	**Gross carrying amount at default**	**Allowance for impairment of trade receivables**
AAA	**0.13%**	**24,225**	**(31)**
A+	**0.69%**	**241,172**	**(1,668)**
A	**0.80%**	**25,823**	**(206)**
A-	**1.36%**	**589**	**(8)**
B-	**7.96%**	**42,140**	**(3,354)**
		333,949	**(5,267)**

Credit rating as at 31 December 2019	Expected credit loss rate	Gross carrying amount at default	Allowance for impairment of trade receivables
AAA	0.06%	14,136	(8)
A+	0.81%	424,822	(3,451)
A	2.79%	65,290	(1,820)
A-	3.76%	46,278	(1,742)
BBB	8.33%	12	(1)
BB	12.24%	2,574	(315)
		553,112	(7,337)

Loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as disclosed in Note 19.

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Other receivables

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. In view of the history of cooperation with debtors, the sound collection history of receivables due from them and forward-looking estimates, the expected credit loss is minimal.

(c) Liquidity risk

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

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk (Continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000
Group					
At 31 December 2020					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 29)	**111,378**	**–**	**–**	**–**	**111,378**
Lease liabilities (Note 17)	**39,305**	**40,717**	**103,789**	**–**	**183,811**
	150,683	**40,717**	**103,789**	**–**	**295,189**
At 31 December 2019					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 29)	95,753	–	–	–	95,753
Lease liabilities (Note 17)	15,950	5,570	16,797	2,841	41,158
Other non-current liabilities (Note 27)	–	–	207,480	–	207,480
	111,703	5,570	224,277	2,841	344,391

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

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

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

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at 31 December 2020 and 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

As at 31 December 2020 and 2019, none of the Group's financial liabilities and financial assets are measured at fair value using level 1 or level 2 inputs.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's financial assets and financial liabilities that are measured at fair value using level 3 inputs.

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Assets		
Current		
Investments in wealth management products (Note 21)	**201,039**	330,968
Non-current		
Unlisted equity investments (Note 21)	**5,000**	–
	206,039	330,968
Liabilities		
– Convertible redeemable preferred shares (Note 26)	**–**	1,259,648

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

The changes in level 3 instruments of financial assets at fair value through profit or loss and convertible redeemable preferred shares for the years ended 31 December 2020 and 2019 have been disclosed in Note 21 and Note 26. There were no transfers among Levels 1, 2 and 3 during the years ended 31 December 2020 and 2019.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The components of the level 3 instruments include investments in bank wealth management products and unlisted equity investments. As these instruments are not traded in an active market, their fair values have been determined using applicable methodologies. The following table summarizes the quantitative about the significant unobservable inputs used in level 3 fair value measurement of the investments in bank wealth management products.

	Valuation technique	Significant unobservable inputs	Percent or ratio range As at 31 December 2020	2019	Sensitive of fair value to the input
Wealth management products	Discounted cash flow model	Expected rate of return	**2.70% to 4.00%**	2.78% to 3.90%	Increasing/decreasing expected rate of return by 50 basis points would increase/decrease fair value by RMB116,897 and RMB392,431 as at 31 December 2020 and 2019.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Estimates of Player Relationship Period in the Group's self-operated online game revenue

As described in Note 2.23, the Group recognizes certain revenue from sale of virtual items in online game services ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(b) Revenue recognition

Pursuant to online game licensing and operation arrangements signed between the Group and the third-party game publishers or Distribution Channels, the Group's responsibilities in game development and self-developed games operation vary for each game. The Group recognizes revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. Indicators that the Group is a principal include but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.

(c) Fair value of convertible redeemable preferred shares

The convertible redeemable preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group applied the discounted cash flow method to determine the underlying equity value of the Group and adopted option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions such as the timing of the deemed liquidation, redemption or IPO event as well as the probability of the various scenarios were based on the Group's best estimates. (Note 26)

(d) Recognition of share-based compensation expenses

The Group granted certain capital interests of Tianjin Loong to eligible employees under an employee incentive scheme. The fair value of the capital interests at the grant date are determined by using valuation techniques. The Group applied the discounted cash flow method and significant estimates on assumptions, including underlying equity value, risk-free interest rate, expected volatility, and dividend yield, were made by the directors and third-party valuer. (Note 25)

(e) Impairment provision for trade and other receivables

The allowance for impairment of trade and other are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1(b).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(f) Income tax

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

5 SEGMENT INFORMATION AND REVENUE

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

As at 31 December 2020 and 2019, substantially all of the non-current assets of the Group were located in the PRC.

5 SEGMENT INFORMATION AND REVENUE *(Continued)*

Revenue for the years ended 31 December 2020 and 2019 are as follows: the Group considered itself as an agent in arrangements of "development and licensing business" and "other business", and recorded revenue on a net basis; whereas, the Group considered itself as a principal in arrangements of "integrated game publishing and operation business", and recorded revenue on a gross basis.

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Online game revenue		
– Development and licensing		
Revenue share	**563,738**	739,810
Non-refundable fixed licensing fees	**33,618**	81,739
– Integrated game publishing and operation	**611,486**	245,685
Others	**–**	12
	1,208,842	1,067,246
Online game revenue		
– Mobile Game	**1,208,842**	1,066,936
– PC Game	**–**	298
Others	**–**	12
	1,208,842	1,067,246
Timing of revenue recognition		
– At a point in time	**563,738**	763,208
– Over time	**645,104**	304,038
	1,208,842	1,067,246

Revenues of approximately RMB597,037,000 and RMB809,971,000 for the years ended 31 December 2020 and 2019, respectively were derived from five largest single external customers.

During the year ended 31 December 2020, revenue of approximately RMB489,998,000 was derived from a single external customer accounted for more than 10% of total revenue.

During the year ended 31 December 2019, revenue of approximately RMB586,487,000 was derived from a single external customer accounted for more than 10% of total revenue.

5 SEGMENT INFORMATION AND REVENUE *(Continued)*

The amount of its revenue from external customers broken down by location of the customers is shown in the table below.

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue segment by geography		
Domestic	**420,498**	723,070
Overseas	**788,344**	344,176
	1,208,842	1,067,246

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Contract costs		
Current		
Costs to fulfil contracts for online game revenue	**14,392**	13,406
Contract liabilities		
Current		
Unamortised revenue from sales of in-game virtual items	**40,791**	34,279
Revenue share received in advance	**4,244**	2,575
Unamortised balance of the non-refundable fixed licensing fees	**20,214**	25,521
	65,249	62,375
Non-Current		
Unamortised balance of the non-refundable fixed licensing fees	**9,502**	10,171
	74,751	72,546

5 SEGMENT INFORMATION AND REVENUE *(Continued)*

Contract costs are mainly related to contract fulfilment costs, which primarily consist of unamortized commissions charged by the Distribution Channels. They are capitalized as contract fulfilment costs and amortized over their respective Player Relationship Periods, which is consistent with the pattern of recognition of the associated revenue.

Contract liabilities primarily represented the unamortized revenue from sales of in-game virtual items in the Group's online game services, the non-refundable fixed licensing fees and revenue share received in advance from customers, which the Group continued to have obligations as at the reporting date.

Revenue recognised in relation to contract liabilities

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Unamortised revenue from sales of in-game virtual items	**34,279**	26,710
Revenue share received in advance	**1,288**	4,813
Unamortised balance of the non-refundable fixed licensing fees	**25,521**	35,342
	61,088	66,865

5 SEGMENT INFORMATION AND REVENUE *(Continued)*

Unsatisfied long-term online game licensing contracts

The following table shows unsatisfied performance obligations resulting from the transaction price allocated to long-term online game licensing arrangement.

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Aggregate amount of the transaction price allocated to long-term online game licensing arrangements that are partially or fully unsatisfied as at year end	**29,716**	35,692

Management expects that RMB20,214,000, RMB8,686,000 and RMB816,000 of the transaction price allocated to the unsatisfied contracts as of 31 December 2020 will be recognised as revenue in 2021, 2022 and 2023 financial year.

The amount disclosed above does not include variable consideration which is constrained.

All other online game licensing arrangements are for periods of one year or less or are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6 OTHER INCOME

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Government grants	**10,790**	14,099

Government grants received by certain subsidiaries were mainly related to their local development. Those grants are not stipulated with any specified uses, nor unfulfilled conditions or contingencies.

7 OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Gains on financial assets at fair value through profit or loss	**17,354**	26,639
Foreign exchange (losses)/gains, net	**(30,506)**	7,453
Donation	**–**	(10,029)
Others	**1,022**	(8)
	(12,130)	24,055

8 EXPENSES BY NATURE

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Employee benefit expenses (Note 9)	**483,650**	359,017
Commissions charged by Distribution Channels and payment channels	**183,790**	83,781
Promotion and advertising expenses	**129,746**	92,763
Outsourced technical services	**89,268**	39,984
Revenue share to the IP holders	**62,815**	70,147
Depreciation and amortization charges (Note 15, 16, 17)	**48,248**	41,092
Listing expenses	**32,508**	4,907
Share-based compensation costs arising from the re-designation of ordinary shares into Series C-1 Preferred Shares	**30,350**	–
Bandwidth and servers custody fee	**17,945**	7,649
Utilities and office expenses	**14,419**	9,938
VAT input transfer out and tax surcharges	**7,774**	5,930
Other professional consulting fees	**5,644**	5,105
Travelling expenses	**5,394**	6,321
Auditors' remuneration	**4,150**	71
– Audit services	**3,600**	71
– Non-audit services	**550**	–
COVID-19-related rent concessions (Note 2, 17)	**(1,883)**	–
Provision for impairment of trade receivables	**1,816**	4,249
Others	**8,754**	7,594
	1,124,388	738,548

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	**373,036**	281,499
Other social security costs, housing benefits and other employee benefits	**40,137**	34,928
Pension costs – defined contribution plans	**19,637**	42,590
Share-based compensation (Note 25)	**50,840**	–
	483,650	359,017

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended 31 December 2020 and 2019 include 2 and 1 directors whose emoluments are reflected in analysis shown in note (b) below. The emoluments payable to the remaining 3 and 4 individuals for each of the years ended 31 December 2020 and 2019 are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Basic salaries	**3,739**	4,528
Bonuses	**4,500**	5,398
Other social security costs and housing benefits	**230**	340
Pension costs – defined contribution plans	**19**	230
Share-based compensation	**–**	–
	8,488	10,496

The emoluments fell within the following bands:

	Number of individuals	
	Year ended 31 December	
	2020	2019
Emolument bands (in HK$)		
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**–**	2
HK$3,000,001- HK$3,500,000	**2**	2
HK$3,500,001- HK$4,000,000	**1**	–
	3	4

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Benefits and interests of directors

The remuneration of each director for the year ended 31 December 2020 is set out as below:

Name	Fee	Salary	Bonuses	Pension costs – defined contribution cost	Other social security costs and housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Li Qing (i)	–	2,085	2,268	4	70	4,427
Bai Wei (i)	–	1,392	1,400	8	80	2,880
Non-executive directors						
Liu Ming (i)	–	–	–	–	–	–
Lu Xiaoyin (ii)	–	–	–	–	–	–
Yan Xinguang (iii)	–	–	–	–	–	–
Independent non-executive directors						
Ge Xuan (iv)	50	–	–	–	–	50
Zhu Lin (iv)	50	–	–	–	–	50
Ding Zhiping (iv)	50	–	–	–	–	50
	150	3,477	3,668	12	150	7,457

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Benefits and interests of directors *(Continued)*

The remuneration of each director for the year ended 31 December 2019 is set out as below:

Name	Fee	Salary	Bonuses	Pension costs – defined contribution cost	Other social security costs and housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Li Qing	–	2,232	173	50	76	2,531
Bai Wei	–	1,360	92	60	88	1,600
	–	3,592	265	110	164	4,131

(i) Appointed on 4 March 2020;

(ii) Appointed on 5 November 2020;

(iii) Appointed on 4 March 2020; Resigned on 5 November 2020;

(iv) Appointed on 24 June 2020

During the year, there are no retirement or termination benefits have been paid to the Company's directors (2019: nil).

During the year, there is no loans, quasi-loans and other dealing arrangement in favour of directors, or controlled body corporates and connected entities of such director.

No significant transactions, arrangements and contracts in relation to the Group's business in which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year (2019: nil).

10 FINANCE COSTS, NET

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Finance income		
Interest income	**12,362**	8,605
Finance costs		
Interest expenses accrued from redemption liability (Note 27)	**(7,233)**	(16,727)
Interest expenses on lease liabilities (Note 17)	**(5,977)**	(1,097)
Others	**(175)**	(104)
	(13,385)	(17,928)
Finance costs, net	**(1,023)**	(9,323)

11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Beginning of the year	**–**	–
Addition (Note (a))	**32,000**	–
Share of operating results	**(526)**	–
End of the year	**31,474**	–

Note:

(a) On 21 October 2020, the Group entered into an investment agreement with shareholders of Huai'an Yanlong Interactive Software Co., Ltd. ("Huai'an Yanlong") and pursuant to which the Group subscribed for 40% equity interests in Huai'an Yanlong at a consideration of RMB32,000,000. The Group has been entitled the right to appoint one director to Huai'an Yanlong, thus the directors of the Company consider that the Group has significant influence on Huai'an Yanlong in its operational and financial decision-making processes, accordingly, the investment in Huai'an Yanlong was accounted for using the equity method. The directors of the Company consider this associate is immaterial to the Group.

12 INCOME TAX (CREDIT)/EXPENSE

The income tax (credit)/expense of the Group for the years ended 31 December 2020 and 2019 is analyzed as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Current income tax (credit)/expense	**(9,752)**	25,196
Deferred income tax	**(6,504)**	(487)
	(16,256)	24,709

(a) Cayman Islands and BVI Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Group entities established under the International Business Companies Acts of BVI are exempted from BVI income taxes.

(b) Hong Kong Income Tax

The entity incorporated in Hong Kong is subject to Hong Kong profit tax at rate of 16.5% on the assessable profits for the years ended 31 December 2020 and 2019, based on the existing legislation, interpretations and practices in respect thereof.

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

The income tax provision of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits for the years ended 31 December 2020 and 2019, based on the existing legislation, interpretations and practices in respect thereof.

Tianjin Loong qualified as a "High and New Technology Enterprise" ("HNTE") for a three-year period under the EIT Law in 2017 and renewed the qualification to another three-year period in October 2020. Therefore, Tianjin Loong was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the years ended 31 December 2020 and 2019.

12 INCOME TAX (CREDIT)/EXPENSE *(Continued)*

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

Huai'an Loong qualified as a HNTE for a three-year period under the EIT Law since 2018 and was entitled to a preferential income tax rate of 15%. Under the Announcement No. 29 of 2020 issued by Ministry of Finance and State Administration of Taxation on 29 May 2020, Huai'an Loong qualified as a "Software Enterprise" for 2019 and 2020. Accordingly, Huai'an Loong is entitled to a two-year EIT exemption period, followed by a three-year period with 50% reduction in the applicable income tax rate, commencing from the first year of profitable operation after offsetting tax losses generating from prior years. The first year of EIT exemption for Huai'an Loong was 2019.

According to a policy promulgated by the State Tax Bureau of the PRC that was effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses in determining tax assessable profits ("Super Deduction"). Several PRC subsidiaries of the Group have claimed such Super Deduction in ascertaining its tax assessable profits/(losses) for the years ended 31 December 2020 and 2019.

12 INCOME TAX (CREDIT)/EXPENSE *(Continued)*

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(Loss)/Profit before income tax	**(775,278)**	145,074
Tax calculated at PRC statutory income tax rate of 25%	**(193,820)**	36,269
Tax effects of:		
Effects of preferential income tax benefits of certain subsidiaries	**66,331**	(6,911)
Effects of different tax rates applicable to different subsidiaries of the Group	**(11,627)**	(6,353)
Tax losses for which no deferred income tax asset was recognized	**27,606**	1,287
Additional deduction for research and development expenses	**(47,251)**	(26,761)
Expenses not deductible for tax purposes (Note (a))	**156,882**	33,709
Utilization of previously unrecognized tax losses	**(117)**	(1,592)
Offshore income not subject to Hong Kong profit tax	**(35,735)**	(6,327)
Others	**21,475**	1,388
Income tax (credit)/expense	**(16,256)**	24,709

Note:

(a) Expenses not deductible for tax purposes mainly include non-deductible fair value changes on convertible redeemable preferred shares, share-based compensation expense and other expenses that exceed the deduction limitation.

13 (LOSS)/EARNINGS PER SHARE

The weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss)/earnings per share for the years ended 31 December 2020 and 2019 has been retrospectively adjusted for the Capitalization Issue (Note 23).

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the Group's (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years.

	Year ended 31 December	
	2020	2019
(Loss)/Profit attributable to owners of the Company (RMB'000)	**(759,022)**	119,354
Weighted average number of ordinary shares in issue (in thousands)	**533,813**	354,767
Basic (loss)/earnings per share (in RMB/share)	**(1.42)**	0.34

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended 31 December 2020, the Company has two categories of dilutive potential ordinary shares: Preferred Shares (including convertible redeemable preferred shares as described in Note 26, redemption liability as described in Note 27) and the RSUs as described in Note 25.

For the year ended 31 December 2019, the Company has one category of dilutive potential ordinary shares: Preferred Shares (including convertible redeemable preferred shares as described in Note 26 and redemption liability as described in Note 27).

13 (LOSS)/EARNINGS PER SHARE *(Continued)*

(b) Diluted *(Continued)*

For the purpose of calculating diluted (loss)/earnings per share for the years ended 31 December 2020 and 2019, the Preferred Shares are assumed to have been converted into ordinary shares with a consequential reduction in net loss attributable to ordinary shareholders for the year ended 31 December 2020 and an increase in net profit attributable to ordinary shareholders for the year ended 31 December 2019 resulting from adding back the loss from the change in fair value of the convertible redeemable preferred shares and interest expenses on redemption liability. This potential adjustment resulted in an anti-dilutive effect in the calculation of diluted (loss)/earnings per share for the years ended 31 December 2020 and 2019.

For the purpose of calculating diluted loss per share for the year ended 31 December 2020, RSUs are assumed to have been converted into ordinary shares with no corresponding change in net loss attributable to ordinary shareholders. This potential adjustment resulted in an anti-dilutive effect in the calculation of diluted loss per share for the year ended 31 December 2020.

14 DIVIDENDS

A dividend in respect of the year ended 31 December 2020 of HK7.4 cents per share, amounting to a total dividend of HK$60 million, is to be proposed at the forthcoming 2020 annual general meeting of the Company. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Dividends declared in February 2020 and paid by Tianjin Loong to its then holders of outstanding ordinary shares (Note (a))	**211,171**	–

Notes:

(a) The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

15 PROPERTY, PLANT AND EQUIPMENT

	Office equipment RMB'000	Furniture RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2019				
Cost	12,552	319	7,421	20,292
Accumulated depreciation	(5,880)	(165)	(4,581)	(10,626)
Net book amount	6,672	154	2,840	9,666
Year ended 31 December 2019				
Opening net book amount	6,672	154	2,840	9,666
Additions	3,882	66	831	4,779
Disposals	(30)	–	–	(30)
Depreciation charge	(3,243)	(79)	(2,385)	(5,707)
Closing net book amount	7,281	141	1,286	8,708
At 31 December 2019				
Cost	16,404	385	8,252	25,041
Accumulated depreciation	(9,123)	(244)	(6,966)	(16,333)
Net book amount	7,281	141	1,286	8,708
Year ended 31 December 2020				
Opening net book amount	**7,281**	**141**	**1,286**	**8,708**
Additions	**7,844**	**53**	**7,060**	**14,957**
Disposals	**(18)**	**–**	**–**	**(18)**
Depreciation charge	**(3,291)**	**(51)**	**(1,892)**	**(5,234)**
Closing net book amount	**11,816**	**143**	**6,454**	**18,413**
At 31 December 2020				
Cost	**24,230**	**438**	**15,312**	**39,980**
Accumulated depreciation	**(12,414)**	**(295)**	**(8,858)**	**(21,567)**
Net book amount	**11,816**	**143**	**6,454**	**18,413**

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Cost of revenue	**339**	220
Research and development expenses	**4,142**	4,734
Selling and marketing expenses	**239**	154
Administrative expenses	**514**	599
	5,234	5,707

16 INTANGIBLE ASSETS

	Software RMB'000	Copyrights and game licenses RMB'000	Trademark and domain names RMB'000	Total RMB'000
At 1 January 2019				
Cost	13,612	34,012	274	47,898
Accumulated amortisation	(4,989)	(9,155)	(115)	(14,259)
Net book amount	8,623	24,857	159	33,639
Year ended 31 December 2019				
Opening net book amount	8,623	24,857	159	33,639
Additions	15,441	6,687	–	22,128
Amortisation charge	(5,147)	(6,552)	(35)	(11,734)
Closing net book amount	18,917	24,992	124	44,033
At 31 December 2019				
Cost	29,053	40,699	274	70,026
Accumulated amortisation	(10,136)	(15,707)	(150)	(25,993)
Net book amount	18,917	24,992	124	44,033

16 INTANGIBLE ASSETS *(Continued)*

	Software RMB'000	Copyrights and game licenses RMB'000	Trademark and domain names RMB'000	Total RMB'000
Year ended 31 December 2020				
Opening net book amount	**18,917**	**24,992**	**124**	**44,033**
Additions	**7,177**	**–**	**–**	**7,177**
Amortisation charge	**(5,658)**	**(6,579)**	**(37)**	**(12,274)**
Currency translation differences	**(946)**	**–**	**–**	**(946)**
Closing net book amount	**19,490**	**18,413**	**87**	**37,990**
At 31 December 2020				
Cost	**35,284**	**40,699**	**274**	**76,257**
Accumulated amortisation	**(15,794)**	**(22,286)**	**(187)**	**(38,267)**
Net book amount	**19,490**	**18,413**	**87**	**37,990**

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

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Cost of revenue	**6,491**	6,451
Research and development expenses	**4,831**	3,565
Administrative expenses	**952**	1,718
	12,274	11,734

17 LEASES

(a) Amounts recognised in the consolidated balance sheet

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Right-of-use assets		
Properties	**165,878**	41,527
Vehicles	**866**	441
	166,744	41,968

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Lease liabilities		
Current	**32,066**	14,620
Non-current	**132,777**	22,643
	164,843	37,263

Additions to the right-of-use assets during the years ended 31 December 2020 and 2019 were RMB154,501,000 and RMB26,922,000, respectively.

17 LEASES *(Continued)*

(b) Amounts recognised in the consolidated statement of profit or loss

The statement of profit or loss show the following amounts relating to leases:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Depreciation charge of right-of-use assets		
Properties	**30,151**	21,888
Vehicles	**589**	1,763
	30,740	23,651

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Interest expenses (included in finance cost)	**5,977**	1,097
Expense relating to short-term leases (included in cost of revenue, research and development expenses, selling and marketing expenses and administrative expenses)	**369**	546
COVID-19-related rent concessions	**(1,883)**	–
	4,463	1,643

The total cash outflow for leases in the years ended 31 December 2020 and 2019 was RMB31,110,000 and RMB23,787,000, respectively.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices and vehicles. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options as described in (d) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

17 LEASES *(Continued)*

(d) Extension options

Extension options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension options held are exercisable only by the Group and not by the respective lessor.

18 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Assets as per balance sheet		
Financial assets at fair value through profit or loss (Note 21)	**206,039**	330,968
Financial assets at amortised cost		
– Trade receivables (Note 19)	**328,682**	545,775
– Deposits and other receivables	**22,745**	13,483
– Term deposits (Note 22(b))	**78,627**	142,663
– Cash and cash equivalents (Note 22(a))	**3,055,711**	728,318
	3,691,804	1,761,207
Liabilities as per balance sheet		
Financial liabilities at fair value through profit or loss		
– Convertible redeemable preferred shares (Note 26)	**–**	1,259,648
Financial liabilities at amortized cost		
– Trade and other payables (excluding payroll liabilities and tax payables) (Note 29)	**111,378**	95,753
– Other non-current liabilities (Note 27)	**–**	174,195
Lease liabilities (Note 17)	**164,843**	37,263
	276,221	1,566,859

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

19 TRADE RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	**333,949**	553,112
Less: allowance for impairment of trade receivables	**(5,267)**	(7,337)
Trade receivables – net	**328,682**	545,775

The following table sets forth the gross carrying amount of trade receivables by customer types:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Related parties (Note 32(c))	**239,713**	424,168
Third parties	**94,236**	128,944
	333,949	553,112

The gross carrying amount of the Group's trade receivables is dominated in the following currencies:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
RMB	**208,635**	473,782
US$	**115,486**	74,223
HK$	**9,828**	5,107
	333,949	553,112

19 TRADE RECEIVABLES *(Continued)*

The Group allows a credit period of 90 – 150 days to its customers. An aging analysis of trade receivables based on revenue recognition date is as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Up to 3 months	**227,624**	230,963
3 to 6 months	**62,097**	282,397
6 months to 1 year	**44,111**	39,463
Over 1 year	**117**	289
	333,949	553,112

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
At beginning of the year	**(7,337)**	(3,088)
Provision for impairment	**(3,350)**	(4,249)
Write off	**3,886**	–
Reversal of impairment	**1,534**	–
At end of the year	**(5,267)**	(7,337)

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

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

20 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Included in non-current assets		
Prepaid revenue share to IP holders (Note (a))	**12,788**	18,868
Rental deposits	**10,829**	–
Others	**892**	1,393
	24,509	20,261
Included in current assets		
Recoverable value-added tax	**8,402**	3,633
Contract fulfilment costs	**14,392**	13,406
Prepaid revenue share to IP holders	**2,453**	176
Rental deposits	**144**	6,825
Interest receivable	**4,278**	1,485
Prepaid advertising expenses	**367**	8
Prepayment for listing expenses	**–**	1,289
Others	**9,919**	6,496
	39,955	33,318

Note:

(a) Prepaid revenue share to IP holders will be amortized to cost when the gross billings generated from games meet the pre-agreed threshold.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Current		
Wealth management products (Note (a))	**201,039**	330,968
Non-current		
Unlisted equity investments	**5,000**	–
	206,039	330,968

Movements in financial assets at fair value through profit or loss during the years ended 31 December 2020 and 2019 are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
At beginning of the year	**330,968**	531,197
Addition-wealth management products	**2,426,450**	2,575,030
Addition-unlisted equity investments	**5,000**	–
Disposal	**(2,573,733)**	(2,801,898)
Realized and unrealized gains	**17,354**	26,639
At end of the year	**206,039**	330,968
Unrealized gains recognized in the consolidated statement of profit or loss included in the above balance	**1,029**	2,968

Note:

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

22 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Cash at bank and on hand	**3,055,711**	728,318

Cash and cash equivalents are dominated in the following currencies:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
RMB	**284,766**	366,025
US$	**2,402,268**	303,291
HK$	**368,677**	59,002
	3,055,711	728,318

The conversion of the RMB denominated balances maintained in the PRC into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Term deposits

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Current		
Term deposits with initial term over three months	**78,627**	142,663

Term deposits are dominated in the following currency:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
US$	**78,627**	142,663

The interest rates on term deposits with the maturity over three months as at 31 December 2020 and 31 December 2019 were in the range of 0.15%-1.20% and 0.65%-2.65%, per annum, respectively.

23 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares USD
Authorized		
At 1 January 2020	–	–
Authorization of ordinary shares (Note (a))	5,000,000,000	50,000
At 31 December 2020	5,000,000,000	50,000

	Number of ordinary shares	Nominal value of ordinary shares USD'000	Equivalent Nominal value of ordinary shares RMB'000	Share premium RMB'000
Issued				
At 1 January 2020	–	–	–	–
Issuance of ordinary shares for Reorganization (Note (a))	60,334,500	1	4	2,433,890
Re-designation of ordinary shares into Series C-1 Preferred Shares (Note (b))	(9,000,000)	–	(1)	(409,649)
Conversion of Preferred Shares to ordinary shares (Note (c))	45,706,316	–	3	2,718,461
Capitalization Issue (Note (d))	473,559,184	5	33	(33)
Issuance of ordinary shares relating to initial public offering, net of underwriting commission and other issuance costs (Note (e))	215,510,000	2	16	2,164,772
At 31 December 2020	786,110,000	8	55	6,907,441

23 SHARE CAPITAL AND SHARE PREMIUM *(Continued)*

Notes:

(a) On 2 January 2020, as part of the Reorganization, the Company was incorporated with an authorized share capital of US$50,000 divided into 5,000,000,000 shares with a par value of US$0.00001 each.

On the same day, following the Company's issue of one share to Harneys Fiduciary (Cayman) Limited, an independent third party, which was subsequently transferred to Cresc Chorus, the Company was owned as to (i) 56,335,000 ordinary shares by Cresc Chorus; (ii) 8,265,000 ordinary shares by Green Particle; and (iii) 5,000,000 shares by Smooth Ebony. Smooth Ebony acts as the holding company to hold the shares on trust under RSU Scheme. Smooth Ebony was consolidated by the Company as to the Company is able to execute power over the control and management over Smooth Ebony.

On 10 March 2020, in relation to the completion of the Reorganization, the 4.49% of equity interests in Tianjin Loong (equivalent to 4,265,500 shares) with a put option were replaced by the issuance of the ordinary shares of the Company with the same put option as that issued by Tianjin Loong (Note 27).

As such, an aggregate of 60,334,500 ordinary shares in issue for Reorganization were credited as fully paid at the amount of the fair value of the Group's Business upon the completion of Reorganization.

(b) On 4 March 2020, Cresc Chorus as vendor agreed to sell and each of Perfect World Interactive and Image Frame as purchaser agreed to purchase 4,500,000 ordinary shares of the Company for a consideration of RMB220.0 million each. Such shares have been re-designated into Series C-1 Preferred Shares upon closing.

(c) Upon completion of the IPO, all Preferred Shares were converted into ordinary shares. As a result, the financial liabilities for Preferred Shares (including convertible redeemable preferred shares and redemption liability) were derecognized and recorded as share capital and share premium.

(d) On 15 July 2020, the Company allotted and issued a total of 497,959,184 ordinary shares of US$0.00001 each credited as fully paid at par to the shareholders on the register of members of the Company on the day preceding the date of IPO in proportion to their then existing shareholdings in the Company by capitalizing from the share premium account of the Company ("Capitalization Issue"). The ordinary shares allotted and issued pursuant to the above Capitalization Issue rank pari passu in all respects with the existing issued ordinary shares. Accordingly, a total of 24,400,000 ordinary shares were allotted and issued by the Company to the Smooth Ebony.

(e) On 15 July 2020, upon completion of the IPO, the Company issued 187,400,000 new shares at par value of US$0.00001 each for cash consideration of HK$11.6 per share. On 11 August 2020, the Company issued additional 28,110,000 new shares with par value of US$0.00001 each at the price of HK$11.6 per share pursuant to the exercise of the over-allotment option. The respective share capital amount was approximately RMB16,000 and share premium arising from the issuance was approximately RMB2,164,772,000, net of the share issuance costs. The share issuance costs paid and payable mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs, which are incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB91,251,000 were treated as a deduction against the share premium arising from the issuance.

24 OTHER RESERVES

	Capital reserve RMB'000	Statutory reserve RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	**4,678**	**8,783**	**199,000**	**(1,166)**	**(21,418)**	**189,877**
Issuance of ordinary shares for Reorganization	**(1,855,915)**	**–**	**–**	**–**	**–**	**(1,855,915)**
Fair value changes on convertible redeemable preferred shares due to own credit risk (Note 26)	**–**	**–**	**–**	**–**	**(1,873)**	**(1,873)**
Share-based compensation (Note 25)	**–**	**–**	**50,840**	**–**	**–**	**50,840**
Distribution to owners	**–**	**(3,783)**	**–**	**–**	**–**	**(3,783)**
Currency translation differences	**–**	**–**	**–**	**(173,197)**	**–**	**(173,197)**
At 31 December 2020	**(1,851,237)**	**5,000**	**249,840**	**(174,363)**	**(23,291)**	**(1,794,051)**
At 1 January 2019	4,678	13,783	199,000	(1,508)	(17,963)	197,990
Share reformation	–	(5,000)	–	–	–	(5,000)
Fair value changes on convertible redeemable preferred shares due to own credit risk (Note 26)	–	–	–	–	(3,455)	(3,455)
Currency translation differences	–	–	–	342	–	342
At 31 December 2019	4,678	8,783	199,000	(1,166)	(21,418)	189,877

25 SHARE-BASED PAYMENTS

On 1 April 2020, to incentivize directors, senior management and employees, a RSU Scheme was approved and adopted by the Company. Smooth Ebony was incorporated to hold 5,000,000 ordinary shares (in equivalent to 29,400,000 underlying shares upon the completion of the Capitalization Issue described in Note 23. Smooth Ebony acts as the holding company to hold the shares on trust under the RSU Scheme. Smooth Ebony was consolidated by the Company as to the Company is able to execute power over the control and management over Smooth Ebony.

On 1 April 2020 and 24 June 2020, in exchange for employee services to the Group, 3,180,700 RSUs in equivalent to 3,180,700 shares, or 18,702,516 underlying shares after taking into account the Capitalization Issue, were granted to certain eligible employees selected by the Board of Directors. Pursuant to the RSU Scheme, subject to grantee's employment or service to the Group through the applicable vesting date, the RSUs shall become vested with respect to 40%, 30% and 30% of the RSUs on each of the first trading day after 12, 24 and 36 months from the Listing date of the Company.

25 SHARE-BASED PAYMENTS *(Continued)*

Movement in the number of underlying shares represented by RSUs after taking into account the Capitalization Issue for the year ended 31 December 2020 is as follows:

	Number of underlying shares represented by RSUs
At 1 January 2020	–
Granted	18,702,516
Forfeited	(705,600)
At 31 December 2020	17,996,916

As the Group will receive employment or service of these employees in exchange for the grant of RSUs, share-based compensation expenses in respect of the employee services received is to be recognized as an expense over the vesting period. The total amount to be expensed is determined by the fair value of the RSUs granted at the grant date and taking into account the number of RSUs that are expected to be vested.

The Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and to determine the fair value of the RSUs granted as at the respective grant date. Key assumptions determined by the Group in relation to the RSUs granted on 1 April 2020 are set as below:

	As at 1 April 2020
Discount rate	17.00%
Risk-free interest rate	0.63%
Volatility	62.47%
Fair value per share after taking into account the Capitalization Issue	7.82

The fair value of the RSUs granted on 24 June 2020 was determined using the market method with reference to offering price at IPO.

25 SHARE-BASED PAYMENTS *(Continued)*

For the year ended 31 December 2020, share-based compensation expenses arising from the RSUs granted by the Company have been charged to the consolidated statement of profit or loss as follows:

	Year ended 31 December 2020 RMB'000
Cost of revenue	**464**
Administrative expenses	**9,176**
Selling and marketing expenses	**1,957**
Research and development expenses	**39,243**
	50,840

26 CONVERTIBLE REDEEMABLE PREFERRED SHARES

On 10 August 2015, Tianjin Loong issued certain capital interests of RMB143,017,000 to Perfect World Games. On 11 January 2017, Tianjin Loong issued certain capital interests of RMB260,000,000 to Linzhi Lichuang. Upon the issuance of these capital interests, Perfect World Games, Linzhi Lichuang (together, "Domestic Investors") and Tianjin Loong have entered into several shareholders' agreements ("Domestic Shareholders Agreements") where Perfect World Games and Linzhi Lichuang were granted certain preferred rights.

On 4 March 2020, in contemplation of the Listing and to reflect the onshore investment by Perfect World Games and Linzhi Lichuang at the level of the Company, each of Perfect World Interactive and Image Frame (together, "Offshore Investors"), among others, entered into the Offshore Share Subscription Agreement and the Offshore Shareholders Agreement, pursuant to which the Company has allotted and Perfect World Interactive and Image Frame have subscribed for 18,050,000 Series A Preferred Shares and 12,350,000 Series B Preferred Shares for nominal consideration of US$1.0, respectively.

On 4 March 2020, pursuant to the Offshore Share Purchase Agreement, Cresc Chorus as vendor agreed to sell and each of Perfect World Interactive and Image Frame as purchaser agreed to purchase 4,500,000 ordinary shares of the Company for a consideration of RMB220.0 million each. Such shares have been re-designated into Series C-1 Preferred Shares upon closing, which would be recognised as convertible redeemable preferred shares. The consideration received by Cresc Chorus was determined based on the fair value of Series C-1 Preferred Shares. Accordingly, the Group recorded a share-based compensation cost of RMB30,350,000, which is the difference between the consideration paid by Offshore Investors and the fair value of transferred ordinary shares.

26 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

On 4 March 2020, Perfect World Interactive and Image Frame, among others, entered into the Offshore Share Subscription Agreement pursuant to which they each further subscribed for 1,020,408 Series C-2 Preferred Shares for U.S. dollars equivalent of RMB50.0 million, which would be recognised as convertible redeemable preferred shares.

The key terms of the preferred rights granted to Domestic Investors are summarized as follows:

Upon liquidation, dissolution, winding up or any other liquidation events of Tianjin Loong as defined in the Domestic Shareholders Agreements, all assets and funds legally available for distribution to the shareholders (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed to the Domestic Investors prior to and in preference to all of the other shareholders of Tianjin Loong. The preferential liquidation amount shall be equal to any dividends declared and unpaid with respect to the Preferred Shares plus the higher of: (i) certain predetermined amount for Perfect World Games/Linzhi Lichuang's accumulated investment amount in Tianjin Loong plus interest of 8% per annum simple interest for Linzhi Lichuang; (ii) an amount that the Domestic Investors would receive on an as-converted basis assuming that the assets of Tianjin Loong available for distribution to the shareholders are to be distributed to the Domestic Investors and the holders of other capital interests on a pro rata basis.

Perfect World Games and Linzhi Lichuang are entitled to require and demand the redemption of all or part of its Preferred Shares at any time from Beijing Loong, Ningbo Longren, Mr. Li Qing, Mr. Xiang Nan, Mr. Zhang Yu, Mr. Bai Wei and Tianjin Loong after the occurrence of any of the following events: (i) failure of a QIPO (an initial public offering by Tianjin Loong of its shares on domestic or any other internationally recognized stock exchange, or capital transactions with listed companies through reorganizations) or sale of all or substantially all of the assets of Tianjin Loong approved by a shareholders' resolution to take place within five years from Linzhi Lichuang Preferred Shares issue date; (ii) any material breach of the Domestic Shareholders Agreements by Beijing Loong, Ningbo Longren, Mr. Li Qing, Mr. Xiang Nan, Mr. Zhang Yu and Mr. Bai Wei; (iii) any material dishonest behavior or frauds by certain members of management. The redemption price shall be calculated equal to: (i) certain predetermined amount for Perfect World Games/Linzhi Lichuang's accumulated investment amount in Tianjin Loong for Linzhi Lichuang, plus (ii) an 8% per annum simple interest, and (iii) any declared but unpaid dividends thereon.

The Domestic Investors shall have the right to convert their investments in Tianjin Loong to equivalent investments in the Company.

The Domestic Shareholders Agreements were terminated on 10 March 2020 upon completion of the Reorganization. The above preferred rights were granted to the Offshore Investors with a further stipulation of conversion right under which each Preferred Share shall be converted into ordinary share upon the Listing based on the then applicable conversion ratio and conversion price (subject to adjustment).

Upon the Listing on 15 July 2020, all outstanding Preferred Shares of the Company have been converted into ordinary shares.

26 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

The movements of the convertible redeemable preferred shares are set out as below:

	RMB'000
At 1 January 2020	**1,259,648**
Issuance of Series C-1 and C-2 Preferred Shares	**540,000**
Changes in fair value	**858,716**
Includes: change in fair value due to own credit risk	**1,873**
Dividend declared and paid	**(106,400)**
Conversion into ordinary shares	**(2,551,964)**
At 31 December 2020	**–**
Total unrealized gains and change in fair value for the year included in "Fair value loss of convertible redeemable preferred shares"	–
At 1 January 2019	1,043,738
Changes in fair value	215,910
Includes: change in fair value due to own credit risk	3,455
At 31 December 2019	1,259,648
Total unrealized gains and change in fair value for the year included in "Fair value loss of convertible redeemable preferred shares"	212,455

26 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

The Group engaged a third-party appraisal firm to support its determination of the fair value of Preferred Shares. The discounted cash flow method was used to determine the underlying share value of Tianjin Loong/ the Company and equity allocation model was adopted to determine the fair value of the Preferred Shares. Key valuation assumptions used to determine the fair value of Preferred Shares are as follows:

	As at 31 December 2019	**As at the date of issuance of Series C-1 and C-2 Preferred Shares (4 March 2020)**
Discount rate	18.00%	**17.00%**
Risk-free interest rate	2.17%	**0.75%**
Volatility	50.12%	**52.78%**

Discount rate was estimated by weighted average cost of capital as of each valuation date. Risk-free interest rate was estimated based on the yield of China Government Bond with a maturity life equal to the expected terms for an exit event as of the valuation date of 31 December 2019 and based on the yield to maturity of Hong Kong Exchange Fund Bills and Notes for valuation date of 4 March 2020 with a term close to the expected IPO date. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as time to exit. Probability weight under each of the redemption feature and liquidation preferences was based on the directors' best estimates. In addition to the assumptions adopted above, the Group's projections of future performance were also factored into the determination of the fair value of Preferred Shares on the valuation date.

27 OTHER NON-CURRENT LIABILITIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Redemption liability in relation to a put option granted to a shareholder (Note (a))	**–**	174,195

Note:

(a) On 24 August 2018, Beijing Loong and Perfect World Games entered into an equity transfer agreement, pursuant to which Perfect World Games agreed to transfer 4.49% equity interests in Tianjin Loong ("Transferred Capitals"), to Beijing Loong at a consideration of RMB157,150,000 ("Transaction Price"). After the closing of the transaction, the Transferred Capitals were held as capitals with a put option to be sold back to Tianjin Loong in the event that a QIPO shall fail to take place within the period of four years from the date of payment of the Transaction Price, at a price equivalent of the Transaction Price minus dividends received during the period the Transferred Capitals were held by Beijing Loong, plus an eight percent per annum simple interest, and any declared but unpaid dividends thereon ("Redemption Price"). Accordingly, the Group recognized such redemption liability at present value of the Redemption Price in the amount of RMB152,472,000. The difference between such amount and the fair value of the Transferred Capitals was treated as deemed capital contribution. The interests accrued on the redemption liability were recorded as finance costs (Note 10). The dividend declared and paid to Beijing Loong in relation to the redemption liability was RMB14,929,000 in 2020.

On 10 March 2020, in relation to the completion of the Reorganization, the capitals with a put option issued by Tianjin Loong were replaced by the issuance of the ordinary shares of the Company with the same put option as that issued by Tianjin Loong.

On 15 July 2020, upon the successful Listing of the Company, the redemption liability of the Company was converted to ordinary shares.

28 DEFERRED INCOME TAXES

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Gross deferred tax assets	**15,047**	9,218
Set-off of deferred tax liabilities pursuant to set-off provisions	**(1,355)**	(2,030)
Net deferred tax assets	**13,692**	7,188
– to be recovered within 12 months	**4,570**	6,396
– to be recovered after more than 12 months	**9,122**	792
Gross deferred tax liabilities	**(1,355)**	(2,030)
Set-off of deferred tax liabilities pursuant to set-off provisions	**1,355**	2,030
Net deferred tax liabilities	**–**	–
– to be recovered within 12 months	**–**	–

28 DEFERRED INCOME TAXES *(Continued)*

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

	Allowance for impairment of trade receivables RMB'000	Tax losses RMB'000	Contract liabilities RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	**791**	**4,696**	**3,731**	**–**	**9,218**
(Charged)/Credited to the consolidated statement of profit or loss	**(161)**	**5,540**	**(932)**	**1,382**	**5,829**
At 31 December 2020	**630**	**10,236**	**2,799**	**1,382**	**15,047**
At 1 January 2019	279	4,481	3,881	–	8,641
Credited/(Charged) to the consolidated statement of profit or loss	512	215	(150)	–	577
At 31 December 2019	791	4,696	3,731	–	9,218

The movements in the gross deferred tax liabilities accounts are as follows:

	Fair value change in financial assets at fair value through profit or loss RMB'000	Contract cost RMB'000	Total RMB'000
At 1 January 2020	**(445)**	**(1,585)**	**(2,030)**
Credited to the consolidated statement of profit or loss	**291**	**384**	**675**
At 31 December 2020	**(154)**	**(1,201)**	**(1,355)**
At 1 January 2019	(223)	(1,717)	(1,940)
(Charged)/Credited to the consolidated statement of profit or loss	(222)	132	(90)
At 31 December 2019	(445)	(1,585)	(2,030)

28 DEFERRED INCOME TAXES *(Continued)*

Deferred income tax assets are recognized for tax losses carried forward and deductible temporary differences to the extent that realization of the related tax benefits through the future taxable profits is probable. As at 31 December 2020 and 2019, the Group did not recognize deferred income tax assets of RMB28,218,000 and RMB1,341,000 in respect of cumulative tax losses amounting to RMB188,045,000 and RMB5,365,000 that can be carried forward against future taxable income. Theses tax losses will expire from year 2021 to 2025.

29 TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables	**95,696**	84,831
Payroll liabilities	**80,852**	51,048
Tax payables	**14,187**	10,063
Listing expenses	**403**	4,717
Asset procurement	**6,667**	1,328
Others	**8,612**	4,877
	206,417	156,864

The following table sets forth the carrying amount of trade payables by customer types:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Related parties (Note 32(c))	**20,392**	18,191
Third parties	**75,304**	66,640
	95,696	84,831

29 TRADE AND OTHER PAYABLES *(Continued)*

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Up to 6 months	**38,366**	72,946
6 months to 1 year	**29,670**	10,269
Over 1 year	**27,660**	1,616
	95,696	84,831

30 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(Loss)/profit before income tax	**(775,278)**	145,074
Adjustments for:		
Amortization of intangible assets (Note 16)	**12,274**	11,734
Depreciation of property, plant and equipment (Note 15)	**5,234**	5,707
Depreciation of right-of-use assets (Note 17)	**30,740**	23,651
Allowance for impairment of trade receivables	**1,816**	4,249
Share-based compensation (Note 25)	**81,190**	–
Fair value changes in wealth management products (Note 21)	**(17,354)**	(26,639)
Fair value changes on convertible redeemable preferred shares (Note 26)	**856,843**	212,455
Finance costs, net	**848**	9,219
Share of results of investments accounted for using the equity method	**526**	–
Net exchange differences	**15,298**	(4,637)
Change in working capital:		
Decrease/(increase) in trade receivables	**215,277**	(269,302)
(Increase)/decrease in prepayment, other receivables and other assets	**(8,377)**	7,276
Increase/(decrease) in trade and other payables	**46,171**	(7,541)
Increase/(decrease) in contract liabilities	**2,205**	(7,986)
Cash generated from operating activities	**467,413**	103,260

30 CASH FLOW INFORMATION *(Continued)*

(b) Reconciliation of liabilities arising from financing activities

	Liabilities from financing activities			
	Lease liabilities RMB'000	Convertible redeemable preferred shares RMB'000	Other non-current liabilities RMB'000	Total RMB'000
As at 1 January 2019	32,868	1,043,738	157,468	1,234,074
Cash flows	(23,624)	–	–	(23,624)
Fair value changes on convertible redeemable preferred shares (Note 26)	–	215,910	–	215,910
Other non-cash movements-accrue interest	1,097	–	16,727	17,824
Other non-cash movements-increase of leasing liabilities	26,922	–	–	26,922
As at 31 December 2019	37,263	1,259,648	174,195	1,471,106
Cash flows	**(31,110)**	**540,000**	**(14,927)**	**493,963**
Fair value changes on convertible redeemable preferred shares (Note 26)	**–**	**752,316**	**–**	**752,316**
Other non-cash movements-accrue interest	**5,977**	**–**	**7,233**	**13,210**
Other non-cash movements-conversion into ordinary shares	**–**	**(2,551,964)**	**(166,501)**	**(2,718,465)**
Other non-cash movements-other payables and rent concession	**(2,802)**	**–**	**–**	**(2,802)**
Other non-cash movements-increase of leasing liabilities	**155,515**	**–**	**–**	**155,515**
As at 31 December 2020	**164,843**	**–**	**–**	**164,843**

31 COMMITMENTS

(a) Capital Commitments

The Group had the following capital commitments under non-cancelable purchase agreements at the end of each reporting period.

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Intangible assets	**28,057**	29,998

(b) Operating lease commitments

The Group has non-cancelable operating lease agreements with initial terms of 12 months or less. The portfolio of short-term leases to which the Group was committed as at 31 December 2020 and 2019 is similar to the portfolio of short-term lease to which the short-term lease expenses is disclosed in Note 17.

32 RELATED PARTY TRANSACTIONS

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

(a) Names and relationships with related parties

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

Company	Relationship
Shenzhen Tencent Computer Systems Company Limited	Subsidiary of a shareholder that has significant influence on the Group
Beijing Perfect World Software Technology Development Co., Ltd.	Subsidiary of a shareholder that has significant influence on the Group
Chengdu Perfect World Network Technology Co., Ltd.	Subsidiary of a shareholder that has significant influence on the Group
Tencent Cloud Computing (Beijing) Company Limited	Subsidiary of a shareholder that has significant influence on the Group
Sixjoy Hong Kong Limited	Subsidiary of a shareholder that has significant influence on the Group
Tencent Technology (Shenzhen) Company Limited	Subsidiary of a shareholder that has significant influence on the Group
Beijing Tencent Culture Media Company Limited	Subsidiary of a shareholder that has significant influence on the Group

32 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Significant transactions with related parties

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Provision of services:		
Shenzhen Tencent Computer Systems Company Limited	**349,180**	586,487
Sixjoy Hong Kong Limited	**140,819**	–
	489,999	586,487

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Purchase of services:		
Chengdu Perfect World Network Technology Co., Ltd.	**20,196**	11,871
Beijing Perfect World Software Technology Development Co., Ltd.	**5,685**	7,683
Shenzhen Tencent Computer Systems Company Limited	**734**	1,899
Tencent Cloud Computing (Beijing) Company Limited	**3,310**	3,391
Beijing Tencent Culture Media Company Limited	**–**	1,415
	29,925	26,259

(c) Year end balances with related parties

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables from related parties:		
Shenzhen Tencent Computer Systems Company Limited	**193,368**	424,168
Sixjoy Hong Kong Limited	**44,203**	–
Tencent Technology (Shenzhen) Company Limited	**2,142**	–
	239,713	424,168

32 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Year end balances with related parties *(Continued)*

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and interest-free.

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Contract liabilities to related parties:		
Shenzhen Tencent Computer Systems Company Limited	**3,672**	2,358
Sixjoy Hong Kong Limited	**7,341**	5,244
	11,013	7,602

The contract liabilities to related parties arise from trade transactions.

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables to related parties:		
Beijing Perfect World Software Technology Development Co., Ltd.	**6,739**	6,025
Chengdu Perfect World Network Technology Co., Ltd.	**13,477**	11,944
Tencent Cloud Computing (Beijing) Company Limited	**176**	222
	20,392	18,191

32 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management compensation

Key management includes executive directors and other members of the Company's senior management team. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	**15,534**	7,360
Other social security costs and housing benefits and other employee benefits	**440**	328
Pension costs – defined contribution plans	**32**	220
	16,006	7,908

33 CONTINGENCIES

The Group did not have any material contingent liabilities as at 31 December 2020 and 2019.

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Assets		
Non-current assets		
Investment in subsidiaries	**3,850,966**	–
	3,850,966	–
Current assets		
Prepayment, other receivables and other assets	**1,959,229**	–
Cash and cash equivalents	**161,739**	–
	2,120,968	–
Total assets	**5,971,934**	–
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	**55**	–
Share premium	**6,907,441**	–
Other reserves	**(249,376)**	–
Accumulated losses	**(696,963)**	–
Total equity	**5,961,157**	–
Current liabilities		
Trade and other payables	**10,777**	–
	10,777	–
Total liabilities	**10,777**	–
Total equity and liabilities	**5,971,934**	–

The balance sheet of the Company was approved by the Board of Directors on 29 March 2021 and was signed on its behalf:

Li Qing
Director

Bai Wei
Director

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Movement of reserves of the Company

The changes in the reserves of the Company during the year ended 31 December 2020 are as follows:

	Share premium RMB'000	Other reserves RMB'000	Total reserves RMB'000	Accumulated losses RMB'000
Balance at 1 January 2020	–	–	–	–
Comprehensive loss				
Loss for the year	–	–	–	(696,963)
Other comprehensive loss				
Items that will not be reclassified to profit or loss				
Currency translation differences	–	(297,935)	(297,935)	–
Fair value changes on convertible redeemable preferred shares due to own credit risk	–	(2,281)	(2,281)	–
Total comprehensive loss	–	(300,216)	(300,216)	(696,963)
Transactions with owners in their capacity as owners				
Issuance of ordinary shares for Re-organization	2,433,890	–	2,433,890	–
Re-designation of ordinary shares into Series C-1 Preferred Shares	(409,649)	–	(409,649)	–
Share-based compensation	–	50,840	50,840	–
Conversion of preferred shares and redemption liability to ordinary shares	2,718,461	–	2,718,461	–
Capitalization issue	(33)	–	(33)	–
Issuance of ordinary shares relating to initial public offering, net of underwriting commission and other issuance costs	2,164,772	–	2,164,772	–
Total transactions with owners in their capacity as owners	6,907,441	50,840	6,958,281	–
Balance at 31 December 2020	6,907,441	(249,376)	6,658,065	(696,963)

35 SUBSEQUENT EVENTS

There are no material subsequent events undertaken by the Group after 31 December 2020.

祖龙娱乐
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