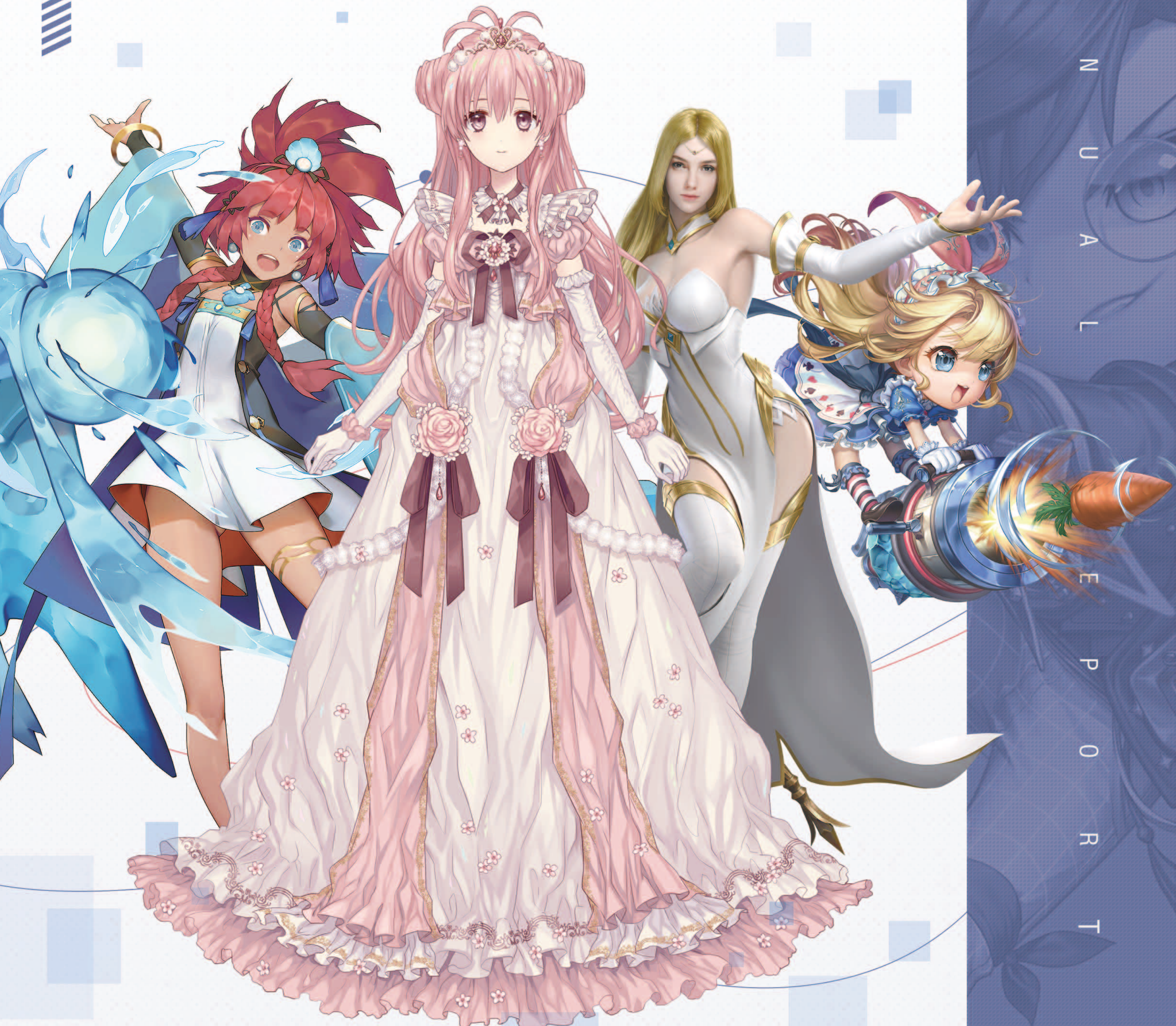
7ROAD HOLDINGS LIMITED

2020年報
ANNUAL REPORT

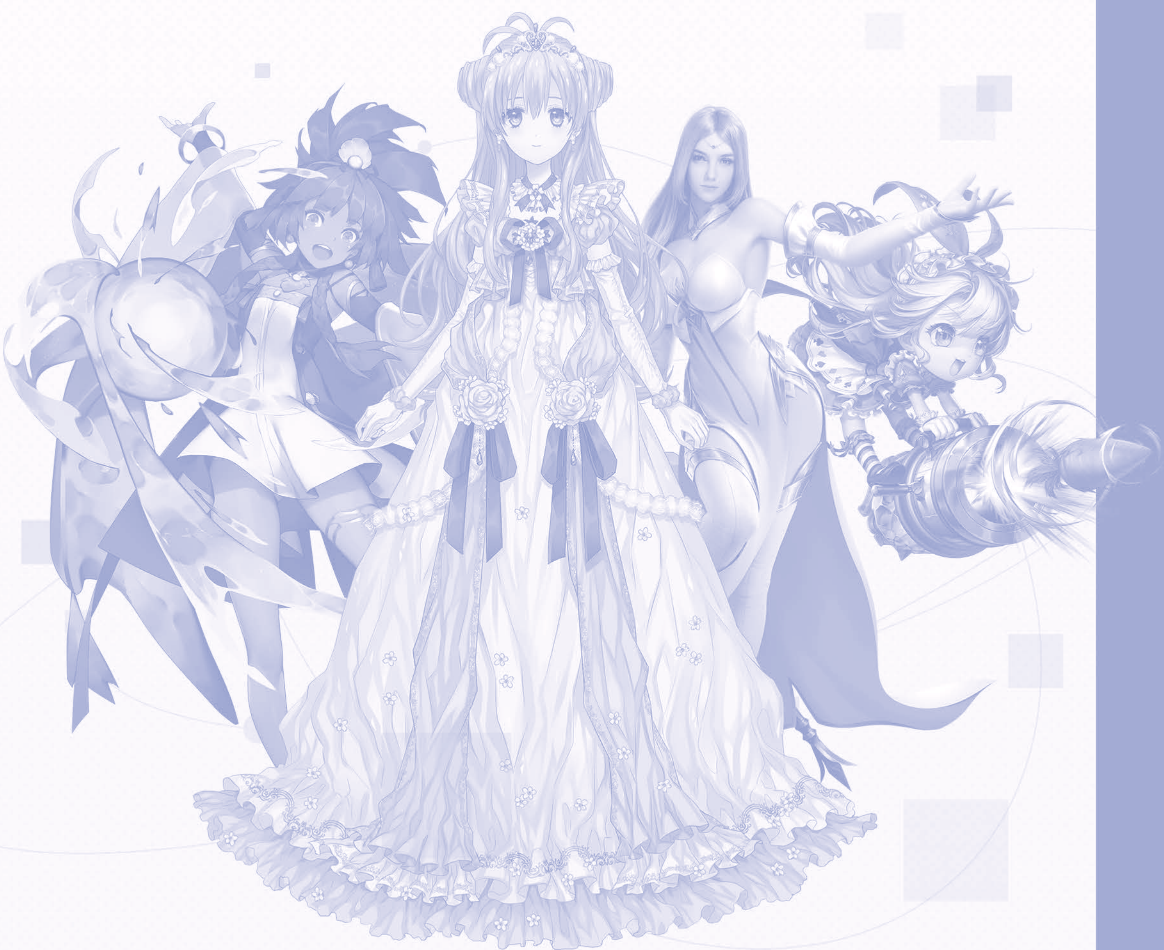
ANNUAL REPORT



第七大道
7ROAD.COM

第七大道控股有限公司
(Stock Code : 797)

CONTENT



Definitions

"AGM"	the forthcoming annual general meeting of the Company proposed to be held on 13 October 2021
"ARPPU"	the total revenue generated by the paying users for a particular game, a particular type of games or all of our games, as applicable, during a certain period divided by the number of paying users of the game, the type of games or all of our games, as applicable, during such period
"Audit Committee"	the audit committee of the Board
"Articles of Association"	the articles of association of the Company conditionally adopted by the Board on 23 June 2018 and became effective on the Listing Date
"average MPUs"	the average number of paying users in the relevant calendar month; average MPUs for a particular period is the average of the MPUs in each month during that period
"Beijing Meimai"	Beijing Meimai Technology Co., Ltd. (北京美麥科技有限公司), a limited company established in the PRC
"Board"	the board of Directors
"CEO"	the chief executive officer of the Company
"CG Code"	the Corporate Governance Code as set out in Appendix 14 of the Listing Rules
"Chairman"	the chairman of the Board
"China" or "PRC"	for the purpose of this annual report only, the People's Republic of China, unless otherwise stated, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan herein
"Company" or "our Company"	7Road Holdings Limited (第七大道控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on 6 September 2017 and the Shares of which are listed on the Main Board of the Stock Exchange on 18 July 2018 (Stock Code: 797)
"Companies Law"	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Consolidated Affiliated Entities"	the entities that the Company controls through the Contractual Arrangements, namely Shenzhen 7Road and its subsidiaries
"Contractual Arrangements"	certain contractual arrangements entered into on 13 April 2018 by us
"COVID-19"	the Coronavirus disease (2019)

"Director(s)"	the director(s) of the Company
"Global Offering"	the public offering of 66,668,000 Shares for subscription by the public in Hong Kong and the international offering (as defined respectively in the Prospectus) of 600,012,000 Shares for subscription by the institutional, professional, corporate and other investors
"Group", "we", "our" 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 the 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$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huoerguosi 7Road"	Huoerguosi 7th Road Network Technology Co., Ltd. (霍爾果斯第七大道網絡科技有限公司), a company established under the laws of the PRC with limited liabilities on 27 November 2015 and one of our Consolidated Affiliated Entities
"IFRS"	the International Financial Reporting Standards
"IP"	intellectual property
"Listing"	listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	the date on which the Shares were listed and initially commenced their dealings on the Stock Exchange, i.e. 18 July 2018
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"MAUs"	monthly active users, refers to the number of people logged in to specific game(s) in the relevant calendar month; average MAUs for a particular period is the average of the MAUs in each month during that period
"mobile game(s)"	game(s) that is/are played on mobile devices
"Model Code"	the Model Code of Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules
"MPUs"	monthly paying users, refers to the number of paying users in the relevant calendar month

Definitions

"Ningbo Bao Pu"	Ningbo Bao Pu Xing Sheng Investment Management Center (Limited liability partnership) (寧波趵樸鑫盛投資管理中心(有限合夥)), a limited liability partnership established under the laws of the PRC on 13 June 2016, and a shareholder of Shenzhen 7Road
"Nomination Committee"	the nomination committee of the Board
"online game(s)"	video game(s) that is/are played over some forms of computer or mobile network
"paying users"	in any given period, (i) paying users of a particular game refers to all registered users who charged their accounts for the game with virtual items purchased from us at least once in such period regardless of whether such virtual items were consumed by the registered users in such period; and (ii) paying users of a particular type or all of our game refers to the simple sum of the paying users of each game of such type or all of our games, as applicable, in such period and a paying users that purchased virtual items for two or more games in such period is counted as two or more paying users in such period
"Prospectus"	the prospectus issued by the Company dated 29 June 2018
"Qianhai Huanjing"	Shenzhen Qianhai Huanjing Network Technology Co., Ltd. (深圳市前海幻境網絡科技有限公司), a company established under the laws of the PRC with limited liability on 12 July 2015
"R&D"	research and development
"Registered Shareholders"	Mr. Meng Shuqi, Mr. Hu Min, Mr. Liu Jing, Ningbo Bao Pu and Shanghai Ting Can, as the shareholders of Shenzhen 7Road
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	Renminbi, the lawful currency of the PRC
"RSU Scheme"	the restricted share unit scheme adopted by our Company on 6 March 2018
"RSU(s)"	restricted share units granted pursuant to the RSU Scheme
"senior management"	the senior management of the Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Ting Can"	Shanghai Ting Can Entity Investment Center (Limited liability partnership) (上海廷燦股權投資中心 (有限合夥)), a limited liability partnership established under the laws of the PRC on 11 November 2015, and a shareholder of Shenzhen 7Road

"Share(s)"	ordinary share(s) of US$0.000005 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Shenzhen 7Road"	Shenzhen 7th Road Technology Co., Ltd. (深圳第七大道科技有限公司), a company established under the laws of the PRC with limited liability on 22 January 2008 and one of our Consolidated Affiliated Entities
"Shenzhen Qianqi"	Shenzhen Qianqi Network Technology Co., Ltd. (深圳千奇網絡科技有限公司), a company established under the laws of the PRC with limited liability on 28 November 2013 and one of our Consolidated Affiliated Entities
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of the United States of America
"web game(s)"	game(s) that is/are played in a web browser on personal computer without downloading any client base or application
"Xinla Group"	Shanghai Xinla Network Technology Co., Ltd.* (上海辛辣網絡科技有限公司) and its subsidiaries
"%"	per cent

Corporate Profile

BOARD OF DIRECTORS

Executive Directors

Mr. Meng Shuqi *(Chairman)*
Mr. Li Zhengquan
Mr. Yang Cheng

Independent Non-executive Directors

Mr. Xue Jun
Ms. Li Yiqing
Ms. Wang Ying

AUDIT COMMITTEE

Mr. Xue Jun *(Chairman)*
Ms. Li Yiqing
Ms. Wang Ying

REMUNERATION COMMITTEE

Ms. Li Yiqing *(Chairwoman)*
Mr. Xue Jun
Ms. Wang Ying
Mr. Meng Shuqi

NOMINATION COMMITTEE

Mr. Meng Shuqi *(Chairman)*
Mr. Xue Jun
Ms. Li Yiqing
Ms. Wang Ying

JOINT COMPANY SECRETARIES

Mr. Li Zhengquan
Mr. Cheung Kai Cheong, Willie *(CPA, FCCA)*

AUTHORIZED REPRESENTATIVES

Mr. Meng Shuqi
Mr. Cheung Kai Cheong, Willie *(CPA, FCCA)*

AUDITOR

Elite Partners CPA Limited
Certified Public Accountants and Registered Public Interest Entity Auditor
10/F., 8 Observatory Road
Tsim Sha Tsui
Kowloon, Hong Kong

COMPANY WEBSITE

www.7road.com

STOCK CODE

797

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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Suite #5–204, 23 Lime Tree Bay Avenue
P.O. Box 2547
Grand Cayman, KY1–1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 2-18-1902, Long Shan Road
Xin Wu District, Wuxi
Jiangsu Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Sertus Incorporations (Cayman) Limited
Sertus Chambers, Governors Square
Suite #5–204, 23 Lime Tree Bay Avenue
P.O. Box 2547, Grand Cayman
KY1–1104, Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKS

Hua Xia Bank
Wuxi New District branch

Bank of China
Shenzhen Yi Yuan Road branch

Financial Performance Highlights

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December				
	2020 (RMB'000)	2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)
Revenue	**424,313**	333,379	332,384	445,295	403,151
Profit/(loss) for the year	**80,001**	13,905	(98,031)	257,181	(16,840)
Profit/(loss) for the year attributable to owners of the Company	**81,309**	10,791	(98,031)	257,181	(16,840)

1. For the year ended 31 December 2020, the total revenue amounted to approximately RMB424.3 million, representing an increase of approximately 27.3% as compared with the year ended 31 December 2019.

2. For the year ended 31 December 2020, the Company recorded a profit attributable to owners of the Company amounted to approximately RMB81.3 million, representing an increase of approximately 653.5% as compared with the year ended 31 December 2019.

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2020 (RMB'000)	2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)
Assets					
Non-current assets	**1,243,150**	1,097,007	660,580	438,007	529,294
Current assets	**871,194**	844,954	675,010	479,455	375,657
Total assets	**2,114,344**	1,941,961	1,335,590	917,462	904,951
Equity and liabilities					
Total equity	**1,511,897**	1,114,834	1,177,128	555,845	495,600
Non-current liabilities	**127,756**	365,555	56,247	55,950	184,603
Current liabilities	**474,691**	461,572	102,215	305,667	224,748
Total liabilities	**602,447**	827,127	158,462	361,617	409,351
Total equity and liabilities	**2,114,344**	1,941,961	1,335,590	917,462	904,951

Chairman's Statement

Dear Shareholders,

On behalf of the Board and the management of 7Road Holdings Limited, I am pleased to present to you the annual report of the Group for the year ended 31 December 2020.

According to the "2020 Global Games Market Report" released by Newzoo in 2020, the global online game market in 2020 was expected to record a revenue of US$159.3 billion. The mobile-end game market remained the largest segmented market with an expected market revenue of US$77.2 billion, representing an increase of 45.0% year-on-year, while revenue from web games recorded a decline of 13.4% year-on-year. Approximately 40.0% of the revenue in global mobile-end game market arose from smartphone games.

I shall then briefly present the financial results of the Group for the year ended 31 December 2020, review the business development during the year and discuss the strategies and prospects in the forthcoming year.

In 2020, the Company generated total revenue of approximately RMB424.3 million, representing an increase of approximately 27.3% as compared to the total revenue of approximately RMB333.4 million in 2019. Our main source of revenue was online game revenue of approximately RMB278,5 million (approximately RMB285.8 million in 2019), of which mobile game revenue accounted for 77.3% and web game revenue accounted for 22.7%. Other revenue included IP licensing and sales of online game copyrights and technology and publishing solutions, etc. In 2020, the gross profit margin of the Company was 73.9%, and the gross profit of the Company was RMB313.5 million, representing an increase of approximately 6.9% as compared to approximately RMB293.1 million in 2019. In 2020, the Company recorded a profit attributable to shareholders of approximately RMB81.3 million, representing an increase of approximately 653.5% as compared to 2019. The revenue and net profit of the Xinla Group for the year ended 31 December 2020 were consolidated into the Group's financial statements.

As of 2020, we continued to focus on game development and high-quality game operation in response to the increasing competition in the game industry. The Group's online game revenue is mainly derived from several well-known games, including "DDTank" (彈彈堂) series, "Wartune" (神曲) series and "Shengshi" (盛世) series. In the fourth quarter of 2020, we tested a game popular among females, "Alice's Closet" (愛麗絲的衣櫥). The game was well received by users in Hong Kong, Macau and Taiwan, and was nominated for "The Key Projects for National Cultural Export 2021–2022" (二零二一至二零二二年度國家文化出口重點項目), which sparked our further moves into the area of female-oriented products. We will continue to develop and operate high-quality online games and leverage our years of experience in the game industry to maintain our momentum in innovation and launching new games to attract more players.

In 2021, in terms of gaming strategic layout, we shall continue to expand into the overseas markets while focusing on the domestic market. We shall commit to updating our existing games and conducting R&D of new games to consolidate the domestic market and optimize our globalization strategy. We will continue to prepare for the development of the Group's core IP, including the "DDTank Classics" (彈彈堂復古版), which is expected to be tested and launched online this year. In addition, we also cooperated with females in the PRC and game developers, to develop a new product called "Flowers and Dream" (花開易夢閣), which is initially planned to be launched in the Greater China Region in the fourth quarter of 2021 or in early 2022. In terms of our strategies of the 2D Japanese anime IP, we participated in the development of a well-known first-tier anime IP mobile game, which is expected to be tested for the first time in 2022. As the first self-developed mobile game of this well-known first-tier anime IP in the PRC, we strive to provide a mobile game with original taste to a large number of fans of this well-known first-tier anime IP in the PRC by reimagining the humour and silliness of the original plots. In addition, we will also publish an anime adaptation mobile game "Mini Super Cook" (廚神小當家), themed around gourmet, whose IP's influence is widely recognized in the anime industry and is well-received. The simulation game is expected to be launched in 2022.

We will also try to participate in more different segmented areas, including attempts and preparations for products such as casual competitive and female-oriented games, with an aim to capture more market opportunities. Also, the Group will continue the joint R&D and publication of its IP through licensing IP or cooperation with other outstanding developers on quality games. In addition, we will consider to invest in and acquire high-quality companies in the industry and strengthen our synergic strategy.

Leveraging on our current principal gaming business, we shall proactively explore and expand our business into other areas with potential such as cloud computing, cloud storage and other gaming-related areas. This will further enhance our sustainability and profitability in the long run in response to the possible impact of the increasingly competitive industry environment and the ever-changing industry policies on the business operation of the Company, creating values for the Group and the Shareholders. As disclosed in a Company's announcement dated 9 May 2021, the Board resolved on 1 April 2021 that the Group will commence the provision of cloud computing services as a new business activity of the Group, in order to expand our income streams and create better returns for Shareholders as well as diversify our income streams. The services will be provided in areas including anime, artificial intelligence, big data supercomputing and blockchain technology-related services. In addition, the global cloud storage market size is expected to grow from US$50.1 billion in 2020 to US$137.3 billion by 2025, according to MarketsandMarkets, a research institution, and the CAGR is expected to be 22.3% during the forecast period. In this regard, based on the feasibility analysis and a resolution of the Board, the Group also started to introduce relevant partners to purchase relevant cloud storage equipment and proposed to enter into the provision of cloud storage services as another new business activity.

With the current rapid development of information technology in China and the significant demand for information data, the demand for cloud computing, cloud storage and other cloud-related services will experience continuous and rapid growth in the foreseeable future. Therefore, the Board believes that this will be a good opportunity for the Group to commence the provision of cloud computing services and cloud storage services, respectively. The Group will continue to seek investment and development opportunities in the cloud computing, cloud storage and cloud-related market.

I would like to take this opportunity to express my sincerest gratitude to our employees and management for their contribution and hard work over the year. I would also like to thank our Shareholders for their support and their confidence in the Group.

Meng Shuqi
Chairman

Wuxi, the PRC, 31 August 2021

Profiles of Directors and Senior Management

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

DIRECTORS

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

Name	Age	Position	Date of Appointment as Director
Executive Directors			
Mr. Meng Shuqi	43	Chairman and executive Director	6 September 2017
Mr. Li Zhengquan	45	Executive Director, chief financial officer and joint company secretary	30 April 2019
Mr. Yang Cheng	44	Executive Director, vice president	29 October 2018
Independent Non-executive Directors			
Mr. Xue Jun	46	Independent non-executive Director	14 December 2018
Ms. Li Yiqing	48	Independent non-executive Director	30 September 2019
Ms. Wang Ying	48	Independent non-executive Director	2 August 2019

EXECUTIVE DIRECTORS

Mr. Meng Shuqi, aged 43, is our executive Director and Chairman. He has been appointed as the Chairman since the Listing Date, and is responsible for the overall management, strategic planning and decision-making of our Group. Mr. Meng is also the chairman of the Nomination Committee and a member of the Remuneration Committee.

Mr. Meng has more than 14 years of experience in the internet and gaming industry. Mr. Meng joined Shenzhen 7Road in June 2009. He had served as the chief operation officer and a director of Shenzhen 7Road since May 2011. He ceased to be the director of Shenzhen 7Road in May 2013 and subsequently retired from his role as the chief operation officer in February 2014. In August 2015, Mr. Meng returned to Shenzhen 7Road and has been the director, chairman of the board and general manager of Shenzhen 7Road since then. Mr. Meng was the chief executive officer of the Company from March 2018 to September 2019 and was a non-executive director of Digital Hollywood Interactive Limited, a company listed on the Stock Exchange (Stock Code: 2022), from November 2015 to December 2018.

Mr. Li Zhengquan, aged 45, is our executive Director, joint company secretary and chief financial officer. Mr. Li has over 13 years of experience in financial management. Mr. Li worked as the assistant director of the research center of Wuxi Municipal Government (無錫市委研究室) from December 2006 to June 2011. Mr. Li served as the assistant president of Guolian Securities Co., Ltd. (國聯證券股份有限公司) ("**Guolian Securities**"), a company whose shares were listed on the Stock Exchange in July 2015 (Stock code: 1456), from July 2011 to December 2012. Mr. Li then served as the deputy general manager of Guolian Trust Co., Ltd. (國聯信託股份有限公司) from January 2013 to December 2013. He served as the director of Hua Ying Securities Co., Ltd. (華英證券有限責任公司) from April 2016 to September 2017. Mr. Li also served as the vice president and the secretary of the board of directors of Guolian Securities from January 2014 to November 2018. Mr. Li has been a non-independent director of Cloud Live Technology Group Co., Ltd. (中科雲網科技集團股份有限公司), a company whose shares were listed on the Shenzhen Stock Exchange in November 2009 (Stock code: 002306), since March 2019. Mr. Li has been a director of Jiangsu Haohua Transmission Control Co., Ltd., a company whose shares were listed on the NEEQ (stock code: 831602), since 22 September 2020. Mr. Li has been an independent director of Lawton Development Co., Ltd., a company whose shares were listed on the Shanghai Stock Exchange (stock code: 600209), since 2 November 2020. Mr. Li has been the chief financial officer of the Company and an executive Director since 30 April 2019; and has been one of the joint company secretaries of the Company since 5 November 2019.

Mr. Li obtained a doctoral degree in economics from Peking University (北京大學) in July 2005, and was a member of the Profession Committee of Direct Investment Industry of the Securities Association of China (中國證券業協會直接投資業務專業委員會) from July 2012 to December 2020.

Mr. Yang Cheng, aged 44, is our executive Director and vice president. Mr. Yang has over 18 years of experience in financial management. Mr. Yang managed the overall financial affairs of Besttone Holding Co., Ltd (號百控股股份有限公司), a listed company on the Shanghai Stock Exchange in China (SH: 600640), for more than 10 years, as the general manager of the planning and finance department and the chief financial officer. Subsequent to that, Mr. Yang worked in a technology company to assist in the overall management. Mr. Yang obtained a bachelor's degree in Economics from East China University of Science and Technology (華東理工大學) in July 2000, and a master's degree in financial management from the same university in March 2003. Mr. Yang obtained the qualification of senior accountant in December 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xue Jun, aged 46, is our independent non-executive Director. He is also the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee, respectively. Mr. Xue has over 20 years of experience in auditing and financial management. Mr. Xue served as an audit manager in PricewaterhouseCoopers from July 1998 to October 2005. He has been a partner and the deputy chairman of Shanghai My Whole Way Certified Public Accountants (上海浩威會計師事務所) since October 2005. Mr. Xue obtained his bachelor's degree in Economics from Shanghai Jiaotong University (上海交通大學) in June 1998, and obtained the qualifications of Chinese Certified Public Accountant and Chartered Financial Analyst in December 2001 and November 2010, respectively.

Ms. Li Yiqing, aged 48, is our independent non-executive Director. She is also the chairman of the Remuneration Committee, and a member of each of the Audit Committee and the Nomination Committee, respectively. Ms. Li has substantial experience in corporate management and investment. Ms. Li has been the chairwoman of Hangzhou Li Zi Cultural Technology Co., Ltd. (杭州粒子文化科技有限公司) since September 2018; a director of Hangzhou Shunwang Technology Co., Ltd. (杭州順網科技股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (SZ: 300113), since September 2018 and the vice-chairwoman of the board of directors of the company since May 2019; and the director of Chengdu Hua Qi Yun Technology Co., Ltd. (成都華棲雲科技有限公司) since August 2018. From April 2017 to April 2018, Ms. Li was the chairwoman of the investment committee of De Qing Pu Hua Equity Investment Fund Enterprise (Limited Partnership) (德清朴華股權投資基金合夥企業(有限合夥)). From May 2018 to March 2020, Ms. Li was the chairperson of the Investment Committee of Puying Guoshi (Shanghai) Equity Investment Fund Partnership (Limited Partnership) (樸盈國視(上海)股權投資基金合夥企業(有限合夥)). From June 2015 to May 2017, Ms. Li was a director of Tianjin Tangren Media Co., Ltd. (天津唐人影視股份有限公司), a company whose shares were listed on the National Equities Exchange and Quotations (NEEQ: 835885). From September 2012 to September 2015, Ms. Li was the chairwoman and chief executive officer of Hua Shu Media Holdings Co., Ltd. (華數傳媒控股股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (SZ: 000156), and was a director and chief executive officer of such company from September 2015 to March 2017. From December 2009 to November 2015, Ms. Li was the chairwoman and the chief executive officer of Huashu Media Network Co., Ltd. From July 2001 to December 2009, Ms. Li was the senior vice president of Hua Shu Digital Television Media Group Co., Ltd (華數數字電視傳媒集團有限公司).

Ms. Li obtained her bachelor's degree in finance from the Zhejiang University of Finance and Economics (浙江財經大學) (formerly known as Zhejiang Institution of Finance and Economics (浙江財經學院)) in July 1995 and further obtained her master's degree in business administration from Zhejiang University (浙江大學) in March 2001.

Ms. Wang Ying, aged 48, is our independent non-executive Director. She is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee, respectively. Ms. Wang has substantial experience in corporate management and legal matters. From September 1992 to July 2002, Ms. Wang served as an accountant in China Construction Bank, Hubei Branch, Xiantao Sub-branch (中國建設銀行湖北省分行仙桃支行). Ms. Wang has been serving at Minzu University of China (中央民族大學) since September 2005 and her current position is an associate professor. In addition, Ms. Wang was an independent director at Changjiang Securities Company Limited (長江證券股份有限公司), a joint stock company whose shares are listed on the Shenzhen Stock Exchange (SZ: 000783), from December 2015 to January 2020; Luo Niu Shan Corp., Ltd. (羅牛山股份有限公司), a joint stock company whose shares are listed on the Shenzhen Stock Exchange (SZ: 000735), since June 2016; Beijing Piesat Information Technology Co., Ltd. (北京航天宏圖信息技術股份有限公司), a joint stock company whose shares are listed on the Shanghai Stock Exchange (SH: 688066), since May 2017; and China CSSC Holdings Limited (中國船舶工業股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (SH: 600150), since May 2021. She was also a non-executive director of China Development Bank Financial Leasing Co., Ltd., a company whose shares are listed on the Stock Exchange (Stock Code: 1606), from March 2020 to May 2020.

Ms. Wang received her doctoral degree in international law from the University of International Business and Economic (對外經濟貿易大學) in July 2009.

SENIOR MANAGEMENT

Mr. Peng Cheng, aged 39, has been appointed as the CEO with effect from 1 September 2019. He has substantial experience in online game industry and had successfully led the development of a number of premium online games. From May 2005 to March 2010, Mr. Peng worked as a senior game producer at Shanda Games Limited, a company with its American depositary shares used to be listed on NASDAQ (NASDAQ: GAME). From April 2010 to July 2019, Mr. Peng was the vice president of Giant Network Group Co., Ltd. (巨人網絡集團股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (SZ: 002558).

Mr. Hu Min, aged 39, is our chief production officer. He is responsible for strategic planning and overseeing the game product development of our Group. Mr. Hu was our executive Director from March 2018 to April 2019.

Mr. Hu has more than 10 years of experiences in the internet and game industry. He joined Shenzhen 7Road in July 2009 and had served as the chief production officer of Shenzhen 7Road from July 2013 until he temporarily retired from the position in February 2014. He has been the director of Shenzhen 7Road since August 2015, to oversee the product development of Shenzhen 7Road. Mr. Hu has also been the director and manager of Qianhai Huanjing since July 2015 and the chief production officer of Shenzhen Qianqi since February 2014.

Mr. Hu received his bachelor's degree in light chemical engineering from Donghua University (東華大學) in July 2004.

Mr. Yang Cheng, see "— Executive Directors" in this section for details.

Mr. Li Zhengquan, see "— Executive Directors" in this section for details.

Mr. Shi Shuanghua, aged 37, is our head of the arts department and joined our Group in October 2012. Mr. Shi is responsible for overseeing artwork designing and managing our arts department.

Mr. Shi has more than nine years of experience in the game industry. Prior to joining our Group, from February 2010 to May 2011, Mr. Shi had worked as an art manager at Hangzhou Lei Tian Technology Co., Ltd. (杭州雷天科技有限公司) and was responsible for the establishment and management of its arts department. Mr. Shi joined our Group in October 2012 as an art designer and has been our head of the arts department of Shenzhen 7Road and then our Group since June 2014.

Mr. Shi received his bachelor's degree in arts from Guangxi Arts University Art (廣西藝術學院) in June 2006.

Ms. Xu Jing, aged 36, is our head of the data center and joined our Group in August 2011. Ms. Xu is responsible for overseeing commercial data analysis and assisting in marketing strategy planning.

Ms. Xu has more than seven years of experience in data analysis. She joined Shenzhen 7Road in August 2011 as a senior data analyst and was in charge commercial data analysis. Ms. Xu has been acting as our head of the data center since March 2014.

Ms. Xu received her bachelor's degree in applied mathematics from Shangrao Normal University (上饒師範學院) in July 2007 and later received a master's degree in applied mathematics from Guangzhou University (廣州大學) in 2010.

CHANGES IN DIRECTORS AND SENIOR MANAGEMENT

Changes in Directors

With effect from 2 March 2020, each of Mr. Li Shimeng and Mr. Yan Kaidan resigned as a non-executive Director, respectively.

Changes in Senior Management

With effect from 26 January 2021, Ms. Guo Hua resigned as the head of Testing Department of the Company.

Management Discussion and Analysis

OVERVIEW

The Group is a leading game developer and operator in China with a global reach. Since our incorporation in 2008, we have been engaging in the R&D, operation and licensing of a number of popular games. A sizable portion of revenue is derived from the overseas markets and our games have been published in more than 100 countries and regions. We are also committed to bringing the high quality of gameplay experience in various game formats to our users. In recent years, we have been strategically expanding our business focuses to develop and operate mobile games, which enjoy wide popularity among game players.

According to the "2020 Global Games Market Report" released by Newzoo in 2020, the global online game market in 2020 was expected to record a revenue of US$159.3 billion. The mobile-end game market remained the largest segmented market with an expected market revenue of US$77.2 billion, representing an increase of 45.0% year-on-year, while income from web games would decrease by 13.4% year-on-year. Approximately 40.0% of the revenue in the global game market arose from smartphone games.

In 2020, revenue from the Asia Pacific online game market was expected to increase by 9.9% as compared with 2019, reaching US$78.42 billion and accounting for 49.0% of the global online game market. The North American market remained the second largest online game market, and the revenue from this region in 2020 was expected to be approximately US$40.0 billion, which accounted for 25.0% of the global online game market. The European online game market was expected to generate US$29.6 billion in revenue, which accounted for 19.0% of the global online game market. The European market had the slowest growth rate with only 7.8% year-on-year. The Latin American, Middle East and African markets were expected to slightly get ahead of the North American market in terms of game revenue growth, and the game revenue from these regions was expected to be over US$11.4 billion in total in 2020, which accounted for 7% of the global online game market.

According to "2020 China Gaming Industry Report" jointly released by the China Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音數協遊戲工委) and the International Data Corporation (IDC), in 2020, the revenue generated from China's online game market increased by RMB47.81 billion to approximately RMB278.7 billion as compared to 2019, maintaining a rapid growth by a year-on-year increase of 20.7%. As at 31 December 2020, the number of game players in China exceeded 665 million, with a year-on-year increase of 3.7%.

In 2020, the Company recorded a total revenue of approximately RMB424.3 million, representing an increase of approximately 27.3% as compared to 2019. In 2020, the gross profit and gross profit margin of the Company was RMB313.5 million and 73.9%, respectively. In 2020, the Company recorded profit attributable to Shareholders amounted to approximately RMB81.3 million, which was mainly due to the profit contribution of Xinla Group, after the Group completed its acquisition in October 2019.

Principal risks relating to our business

There are certain risks involved in our operations and our prospects and future financial results could be materially and adversely affected by these risks. The following highlight the principal risks exposed to the Group and are not meant to be exhaustive:

- we are required to comply with new policies or any amendment to current policies in relation to the gaming industry, which may affect our business operations;
- we face uncertainties in the continued growth of the mobile game and web game industries as well as the market acceptance of our mobile games and web games;
- delays of game launches could negatively affect our operations and prospects;
- we rely on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services or are unable to attract new key employees;
- if we are unable to extend the expected lifecycle of our web games and mobile games or if our games do not maintain their popularity during their expected lifecycle, our business, financial condition, results of operations and prospects could be materially and adversely affected;
- we rely on third-party distribution and publishing platforms to distribute and publish our games. If these third-party distribution and publishing platforms fail to effectively promote our games on their platforms or otherwise fulfill their obligations to us, our business and results of the operations will be materially and adversely affected; and
- our business relies on our data analysis capabilities, any impact on which would materially and adversely affect our ability to formulate appropriate business strategies.

To mitigate the identified risks, we shall monitor the risks, and review our business strategies and financial results. We have implemented the following strategies to ensure the risks are being managed:

- our Directors and management teams actively exchange views and information in relation to the new policies and amendments to current policies of the gaming industry with relevant regulatory authorities and take appropriate actions to respond to the changes and ensure the Group is in compliance with the latest applicable laws and regulations;
- our user support department is committed to tracking and responding to the changes in players' preferences in a timely and effective manner;
- we further strengthen our data analytics capabilities to continue developing popular games, improve players' experience and enhance the profitability of our games;
- we closely monitor the progress of our pipeline games;
- we constantly enhance or update our existing games with new features to attract players;
- to keep pace with the market, we bring on board new talents to keep the competitiveness of our games; and
- we strengthen our relationships with major domestic and international publishing and distribution partners.

OUTLOOK FOR 2021

In 2021, the Group will continue to adhere to the concept of high-quality games and strive to create high-quality game products. The Group will make full use of the value of its existing IP and its experience accumulated over the years in game development to form a stable IP product line which consists of original innovations, Japanese comics and cartoon adaptations and domestic licensing to enrich the Group's product portfolio. The Group will also take into full account player experience and optimize functions and game rules in newly developed games. The Group will actively explore diversified income streams in order to increase the revenue and drive the performance of the Group, while leveraging in-game virtual commodity consumption as its basic profit model. In 2021, we will continue to strategically expand in overseas markets while focusing on the domestic market. We will be committed to updating and promoting our existing games and conducting R&D of new games to consolidate the domestic market and optimize our globalization strategy.

We will continue to prepare for the development of the Group's core IP, including the "DDTank Classics" (彈彈堂復古版), which is expected to be tested and launched online during the second half of this year. In addition, we also cooperated with females in the PRC and game developers to develop a new product called "Flowers and Dream" (花開易夢閣), which is initially planned to be launched in the Greater China Region in the fourth quarter of 2021 or in early 2022. In terms of our strategies of the 2D Japanese anime IP, we participated in the development of a well-known first-tier anime IP mobile game, which is expected to be tested for the first time in 2022. As the first self-developed mobile game of this well-known first-tier anime IP in the PRC, we strive to provide a mobile game with original taste to a large number of fans of this well-known first-tier anime IP in the PRC by reimagining the humour and silliness of the original plots. In addition, we will also publish an anime adaptation mobile game "Mini Super Cook" (廚神小當家), themed around gourmet, whose IP's influence is widely recognized in the anime industry and is well-received. The simulation game is expected to be launched in 2022. We will also try to participate in more different segmented areas, including attempts and preparations for products such as casual competitive and female-oriented games, with an aim to capture more market opportunities. Also, the Group will continue the joint R&D and publication of its IP through licensing IP or cooperation with other outstanding developers on quality games. In addition, we will consider to invest in and acquire high-quality companies in the industry and strengthen our synergic strategy.

According to the Group's development strategy, the Group will selectively acquire or invest in potential IP or high-quality R&D and publishing companies in the industry chain from third parties such as popular literature, comics and social networks, and will also seek close cooperation with outstanding game developers or publishers to strengthen the Group's business. As disclosed in the announcement of the Company dated 26 April 2021, the Group completed the acquisition of 100% equity interest in Beijing Meimai, which has established a cooperative relationship with the Roblox Platform in China. Roblox is the world's top sandbox game development company, and Beijing Meimai is primarily responsible for the content review, developer community maintenance and new media operations business of the Roblox Platform in China. The Group will continue to improve its gaming portfolio and further enhance its gaming development capabilities and performance, so as to bring the Group to an all-new level of development. At the same time, the Group will strive to integrate, coordinate and optimize existing business resources with other resources such as the R&D capabilities, game products, marketing channels, operation and management, and existing game players of businesses acquired or to be acquired.

IP licensing will remain an important part of our long-term strategy. In 2021, we will continue to focus on IP R&D through IP licensing or cooperation with other quality vendors. We will continue to recruit more talents and retain existing talents with attractive remuneration policies to strengthen our IP R&D capabilities. At the same time, we will actively seek appropriate investment and cooperation opportunities.

Leveraging on our current principal gaming business, we shall proactively explore and expand our business into other areas with potential such as cloud computing, cloud storage and other gaming-related areas. This will further enhance our sustainability and profitability in the long run in response to the possible impact of the increasingly competitive industry environment and the ever-changing industry policies on the business operation of the Group, creating values for the Group and the Shareholders. As disclosed in a Company's announcement dated 9 May 2021, the Board resolved on 1 April 2021 that the Group will commence the provision of cloud computing services as a new business activity of the Group, in order to expand its income streams and create better returns for Shareholders as well as diversify its income streams. The services will be provided in areas including anime, artificial intelligence, big data supercomputing and blockchain technology-related services. In addition, the global cloud storage market size is expected to grow from US$50.1 billion in 2020 to US$137.3 billion by 2025, according to MarketsandMarkets, a research institution, and the CAGR is expected to be 22.3% during the forecast period. In this regard, based on the feasibility analysis and a resolution of the Board, the Group also started to introduce relevant partners to purchase relevant cloud storage equipment and proposed to enter into the provision of cloud storage services as another new business activity.

With the current rapid development of information technology in China and the significant demand for information data, the demand for cloud computing, cloud storage and other cloud-related services will experience continuous and rapid growth in the foreseeable future. Therefore, the Board believes that this will be a good opportunity for the Group to commence the provision of cloud computing services and cloud storage services, respectively. The Group will continue to seek investment and development opportunities in the cloud computing, cloud storage and cloud-related market.

We are fully looking forward to 2021 and will expect to continue to expand our business in the overseas markets and further improve our global layout in the gaming industry and proactively explore development opportunities in cloud computing, cloud storage and cloud-related services markets. We will further enhance our comprehensive competitiveness, resource control ability, subsequent development ability and risk resistance ability, so as to consolidate, develop and enhance our position in the industry and create more value for Shareholders.

CORONAVIRUS IMPACT

Since 2020, COVID-19 has continued to spread around the world. China has implemented and continued to implement a number of preventive and control measures, including restricting and regulating people's travel and transportation arrangements to some extent, vaccination and the isolation of some residents, while strengthening health and pandemic prevention requirements in factories and offices, whilst encouraging social isolation.

After assessing the Group's business operations and capital investment, the Group's current liquidity position and working capital are sufficient. In view of the instability of the spread of COVID-19, the Group has taken a series of necessary health precautions to mitigate the potential impact of the COVID-19 pandemic, including the implementation of prevention and control policies released by the relevant government authorities and adopting flexible work-from-home practices. Meanwhile, the Group has also adopted cost control policies in order to improve its risk averse capabilities. The Group will closely monitor the COVID-19 pandemic situation and, as the case may be, continue to assess the impact of the pandemic on the Group's financial and business operations from time to time.

FINANCIAL REVIEW

OPERATIONAL INFORMATION

Our Games

As of 2020, we continued to focus on game development and high-quality game operation in response to the increasing competition in the gaming industry. We have established various studios with a focus on R&D and an operation and publishing center with a global vision to manage game development, operation and publishing. During the year ended 31 December 2020, the Group's online game revenue was mainly derived from several well-known games, including "DDTank" (彈彈堂) series, "Wartune" (神曲) series and "Shengshi" (盛世) series. In the fourth quarter of 2020, we tested a game popular among females, "Alice's Closet" (愛麗絲的衣櫥). The game was well received by users in Hong Kong, Macau and Taiwan, and was nominated for "The Key Projects for National Cultural Export 2021–2022" (二零二一至二零二二年度國家文化出口重點項目), which sparked our further moves into the area of female-oriented products. We will continue to develop and operate high-quality online games and leverage our years of experience in the game industry to maintain our momentum in innovation and launching new games to attract more players.

Our Players

We assess the operating performance with a set of key performance indicators, which include MAUs, MPUs and ARPPU. Fluctuations in our operating data are primarily a result of changes in the number of players who play, download (in the case of mobile games) and pay for virtual items and premium features in our games. Using these operating data as our key performance indicators allows us to monitor our ability to offer highly engaging online games and helps us to increase the continuous popularity of our games, gain the monetization of our player base and deal with the intense competition in the online gaming industry, so that we can implement better business strategies.

For the year ended 31 December 2020, our web games had (i) an average MAUs of approximately 1.1 million; (ii) an average MPUs of approximately 54,000; and (iii) an ARPPU of approximately RMB399.4; and our mobile games had (i) an average MAUs of approximately 0.7 million; (ii) an average MPUs of approximately 60,300; and (iii) an ARPPU of approximately RMB117.6.

YEAR ENDED 31 DECEMBER 2020 COMPARED TO THE YEAR ENDED 31 DECEMBER 2019

The following table sets forth the comparative statements of profit or loss for the years ended 31 December 2020 and 2019:

	Year ended 31 December 2020 (RMB'000)	2019 (RMB'000)	Year-on-year change %
Revenue	424,313	333,379	27.3%
Cost of revenue	(110,835)	(40,248)	175.4%
Gross profit	313,478	293,131	6.9%
Research and development expenses	(107,570)	(112,407)	-4.3%
Selling and marketing expenses	(28,858)	(20,997)	37.4%
Administrative expenses	(72,374)	(58,733)	23.2%
Net reversal/(provision) of impairment losses on financial assets under expected credit loss model	5,791	(36,626)	-115.8%
Other income	15,771	21,394	-26.3%
Other losses, net	(68,059)	(77,562)	-12.3%
Operating profit	58,179	8,200	609.5%
Finance income	804	813	-1.1%
Finance costs	(3,868)	(3,100)	24.8%
Finance costs, net	(3,064)	(2,287)	34.0%
Share of results of joint ventures	(3,216)	(784)	310.2%
Profit before income tax	51,899	5,129	911.9%
Income tax credit	28,102	8,776	220.2%
Profit for the year	80,001	13,905	475.3%

REVENUE

The following table sets forth the breakdown of our revenue for the years ended 31 December 2020 and 2019:

	For the year ended 31 December			
	2020		2019	
	(RMB'000)	(% of total revenue)	(RMB'000)	(% of total revenue)
Types of goods or services				
Online game revenue	278,461	65.6%	285,819	85.7%
— Self-development games				
published by the Group	24,369	5.7%	5,797	1.7%
published by other publishers	240,210	56.6%	262,351	78.7%
— Licensed games				
published by the Group	7,904	1.9%	565	0.2%
published by other publishers	5,978	1.4%	17,106	5.1%
Sales of customization game software	8,585	2.0%	13,302	4.0%
Sales of game copyrights	35,000	8.2%	22,453	6.7%
Sales of online game technology and publishing solutions services	45,333	10.7%	1,382	0.5%
Intellectual property licensing	56,934	13.5%	10,423	3.1%
Total	424,313	100.0%	333,379	100.0%

For the year ended 31 December 2020, total revenue was approximately RMB424.3 million, representing an increase of approximately 27.3% as compared with 2019. This was mainly attributable to the completion of the Group's acquisition of Xinla Group in the second half of 2019, and the revenue and profit for 2020 of which have been consolidated into the Group's account for the year ended 31 December 2020.

COST OF REVENUE

Our cost of revenue mainly comprises employee salary and benefit expense incurred by our R&D and operations departments, advertising and promotion fee and cost of game licensing. The cost of revenue amounted to approximately RMB110.8 million for the year ended 31 December 2020, representing an increase of approximately 175.4% as compared to approximately RMB40.2 million in 2019, mainly due to the rise in amortization of intangible asset as a result of the acquisition of the Xinla Group.

GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit amounted to approximately RMB313.5 million for the year ended 31 December 2020, representing an increase of approximately 6.9% as compared to approximately RMB293.1 million for the year ended 31 December 2019.

Our gross profit margin was approximately 73.9% for the year ended 31 December 2020. For the year ended 31 December 2019, our gross profit margin was approximately 87.9%. Such decrease was mainly because of the consolidation of Xinla Group's costs into the Group's accounts after the completion of its acquisition in October 2019.

EXPENSES

Research and Development Expenses

Our R&D expenses mainly comprise employee salary and benefit expenses incurred by our R&D department and outsourcing expenses. The R&D expenses amounted to approximately RMB107.6 million for the year ended 31 December 2020, representing a decrease of approximately 4.3% as compared to approximately RMB112.4 million in 2019. Such decrease was mainly because the Group had spent great effort to enhance its cost management in R&D in the year of 2020.

Administrative Expenses

Our administrative expenses mainly comprise employee salary and benefit expenses and professional consulting fees. The administrative expenses were approximately RMB72.4 million for the year ended 31 December 2020, representing an increase of 23.2% as compared to approximately RMB58.7 million in 2019. Such increase was mainly because of the consolidation of Xinla Group's staff salaries into the Group's accounts after the completion of its acquisition in October 2019.

Selling and Marketing Expenses

Our selling and marketing expenses mainly comprise advertising expenses incurred by our marketing department. The selling and marketing expenses amounted to approximately RMB28.9 million for the year ended 31 December 2020, representing an increase of approximately 37.4% as compared to RMB21.0 million for the year ended 31 December 2019. Such increase was mainly because of the selling and marketing expenses of the Xinla Group were included in the Group's accounts upon completion of its acquisition in October 2019.

Income Tax

The income tax credit increased for the year ended 31 December 2020, which was as a result of certain subsidiaries being expected an offset of income tax to their profit in the future. The estimated income tax rates applicable to the Group entities (excluding the entities that are currently tax exempted) for the year ended 31 December 2020 varied from 12.5% to 25% (2019: 12.5%–25%).

PROFIT FOR THE PERIOD

For the year ended 31 December 2020, our profit attributable to owners of the Company amounted to approximately RMB81.3 million, representing an increase of approximately 653.5% as compared with the year ended 31 December 2019. Such increase was mainly attributable to the profit contribution of the Xinla Group, which was consolidated into the accounts of the Group after the completion of its acquisition in October 2019.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances the operations with internally generated cash flow and equity or debt financing activities for its capital requirements. As at 31 December 2020, cash and bank balances amounted to RMB379.3 million (2019: RMB45.9 million), which were denominated in Renminbi. During the year ended 31 December 2020, the increase in cash and bank balances was mainly due to the Company's allotment of Shares to DianDian Interactive Holding, an independent third party, in December 2020. For details of the share subscription, please refer to the announcements of the Company dated 16 December 2020 and 29 December 2020, respectively.

INTEREST BEARING LOAN

We adopt a prudent treasury management policy to ensure that our Group maintains a healthy financial position. As at 31 December 2020, our total borrowings amounted to approximately RMB56.5 million (2019: RMB44.4 million), representing an increase of 27.5% year-on-year, mainly due to bank borrowings received during the year ended 31 December 2020. As at 31 December 2020, our bank borrowings were mainly denominated in Renminbi, of which approximately RMB56.5 million were bank borrowings payable within one year. Details of the Group's bank borrowings, including maturities, currencies and interest rates, are set out in note 29 to the consolidated financial statements.

GEARING RATIO

As at 31 December 2020, the Group's gearing ratio was approximately 28.5% (2019: 42.6%). The decrease was mainly due to the increase in total assets and net assets resulting from the Company's allotment of Shares to DianDian Interactive Holding in December 2020. The gearing ratio is calculated as total debt divided by total assets of the Group as at 31 December 2020.

CAPITAL EXPENDITURE

	For the year ended 31 December		
	2020 (RMB'000)	2019 (RMB'000)	Year-on-year change %
Office computer and electronic equipment	**498**	165	201.8
Office furniture and leasehold improvement	**1,507**	2,403	(37.3)
Vehicles	**333**	—	—
Houses and buildings	**—**	509	(100.0)
Total	**2,338**	3,077	(24.0)

Our capital expenditure includes office computers, electronic equipment, software and constructions in progress. The total capital expenditure for the years ended 31 December 2020 and 2019 was approximately RMB2.34 million and RMB3.07 million, respectively.

FOREIGN EXCHANGE RISK

The Group operates in the overseas markets through overseas publishers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises primarily from recognised assets and liabilities when foreign currency is or will be received from overseas counterparties. For the year ended 31 December 2020, the Group did not have policies to hedge any foreign currency fluctuations.

SIGNIFICANT INVESTMENTS HELD

Since July 2020, the Group had acquired 2% equity interest in Shanghai Longrui Information Technology Co., Ltd. (上海瓏睿信息科技有限公司) ("**Shanghai Longrui**"), at an initial investment cost of RMB180,000,000 (the "**Investment**"). The equity interest held by the Group in Shanghai Longrui was subsequently diluted to 1.4% in August 2020. Shanghai Longrui is principally engaged in the construction and operation of Internet data centre and related infrastructures.

The Investment was accounted for as a financial asset at fair value through profit or loss. During the year ended 31 December 2020, (i) the fair value change of the Investment was an increase of approximately RMB27.4 million; and (ii) there was no realized or unrealized gain or loss as a result of the Investment, nor was any dividend received. As at 31 December 2020, the fair value of the Investment through profit and loss and its change was accounted for investment gains amounted to approximately RMB207.4 million. Accordingly, the fair value of the Investment compared to the Group's total assets as at 31 December 2020 was approximately 9.81% and therefore classified as a significant investment of the Group.

Subsequent to the year ended 31 December 2020, the Investment was disposed of at a consideration of approximately RMB207.4 million and was fully settled in April 2021.

Save as disclosed above, the Group did not have any other significant investments held as of 31 December 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this annual report, the Company did not have other future plans for material investments or capital assets as of 31 December 2020.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

Save as disclosed in this annual report, the Company did not have any other material acquisitions or disposals of subsidiaries and associates during the year ended 31 December 2020.

CHARGE ON ASSETS

As of 31 December 2020, save as disclosed in note 29 of the financial statements, there was no other material charge on the Group's assets.

CONTINGENT LIABILITIES AND GUARANTEES

As of 31 December 2020, save as disclosed in note 36 of the financial statements, we did not have any other unrecorded significant contingent liabilities, guarantees or any material litigation against us.

EMPLOYEES AND REMUNERATION POLICIES

As of 31 December 2020, we had 346 full-time employees, mostly based in Shenzhen, Wuxi and Shanghai, the PRC. The following table sets out the number of our employees by function as at 31 December 2020:

Function	Number of Employees	% of total
R&D	186	53.76%
Operation	89	25.72%
Administration	71	20.52%
Total	346	100.0%

For the year ended 31 December 2020, our employee remuneration amounted to approximately RMB117.1 million (including salary, bonus, share-based compensation, pension scheme contribution, other social security fund and other employee benefits).

The remuneration of our employees is determined based on their performance, experience, competence and market comparables. Their remuneration package includes salaries, performance-related bonus, RSUs, allowances and state-managed retirement benefit schemes for employees in the PRC. The Group also provides customized training to its staff to enhance their technical and product knowledge.

The remuneration of Directors and members of senior management is determined on the basis of each individual's responsibilities, qualification, position, experience, performance, seniority and time devoted to our business. They receive compensation in the form of salaries, performance-related bonus, RSUs, and other allowances and benefits-in-kind, including the Group's contribution to their pension schemes on their behalf.

Corporate Governance Report

The Company is committed to achieving and maintaining high standards of corporate governance by focusing on the 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 CG Code 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 CG Code.

BOARD OF DIRECTORS

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 has general powers for the management and conducts the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Group, who implements the Group's strategy and direction as determined by the Board.

The Board currently consists of six Directors, namely Mr. Meng Shuqi (Chairman), Mr. Li Zhengquan and Mr. Yang Cheng, as executive Directors, and Mr. Xue Jun, Ms. Li Yiqing and Ms. Wang Ying, as independent non-executive Directors. None of the Directors 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 Group.

The biographies of the Directors are set out on pages 11 to 13 of this annual report.

Each of the executive Directors has entered into a service contract with the Company and the Company has issued letters of appointment to each of the independent non-executive Directors.

Code provision A.4.2 of the CG Code states that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Articles of Association, all the Directors are subject to retirement by rotation at least once every three years. Any new Director appointed by the Board (i) to fill a casual vacancy in the Board shall hold office only until the first general meeting of the Company following his appointment and shall be subject to re-election at such meeting; and (ii) as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election.

Each of the independent non-executive Directors has signed a letter of appointment with the Company until the third anniversary of the Listing Date and is subject to retirement by rotation at an annual general meeting of the Company at least once every three years.

The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The term of the service contracts and the letters of appointment may be renewed in accordance with the Articles of Association, the Listing Rules and other applicable laws.

The aggregate remuneration (including fees, salaries, contributions to pension schemes, share-based compensation expenses, discretionary bonuses, housing and other allowances and other benefits in kind) payable to the Directors for the year ended 31 December 2020 was approximately RMB3,642,000.

The remuneration of the Directors is determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group. Details of the remuneration of the Directors and senior management for the year ended 31 December 2020 are set out in notes 11 and 35 to the consolidated financial statements, respectively.

The Company has arranged appropriate insurance cover in respect of legal proceedings against the Directors.

The Company has procedures as agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense as required pursuant to code provision A.1.6 of the CG Code.

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. Xue Jun 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 considered them to be independent.

Directors have access to the services of the joint company secretaries to ensure that the Board procedures are followed. The joint company secretaries of the Company are Mr. Li Zhengquan and Mr. Cheung Kai Cheong, Willie. In compliance with Rule 3.29 of the Listing Rules, Mr. Li Zhengquan and Mr. Cheung Kai Cheong, Willie have undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2020. Mr. Cheung Kai Cheong, Willie has the necessary qualifications and experience as required under Rules 3.28 and 8.17 of the Listing Rules.

In compliance with code provision A.6.5 of the CG Code, all Directors attended various trainings during the year ended 31 December 2020, 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 has arranged suitable trainings for all Directors in order to develop and refresh their knowledge and skills as part of their continuous professional development.

The Company is committed to continuously reviewing and improving its internal systems, including those in relation to internal supervision and control, and risk management.

Changes in Directors' and chief executive's information pursuant to Rule 13.51B (1) of the Listing Rules

Below is the information relating to the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2020 interim report:

- Ms. Wang Ying, an independent non-executive Director, had been appointed as an independent director of China CSSC Holdings Limited (中國船舶工業股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (SH: 600150), since May 2021.

- Mr. Li Zhengquan, an executive Director, had ceased to be a member of the Professional Committee of Direct Investment Industry of the Securities Association of China (中國證券業協會直接投資業務專業委員會) since December 2020.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in code provision D.3.1 of the CG Code.

The principal roles and functions of the Board in relation to corporate governance are to develop and review the Company's policies and practices on corporate governance, to review and monitor the training and continuous professional development of Directors and management, to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements, to develop, review and monitor the code of conduct applicable to employees and Directors, and to review the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

BOARD DIVERSITY POLICY AND NOMINATION POLICY

Pursuant to the CG Code, the Board has adopted a Board diversity policy and a nomination policy. The Board diversity policy sets out the basic principles to ensure that the Board has the requisite knowledge of the Company and experience in different business and cultural conditions of different regions and markets and a variety of perspectives necessary to maintain and enhance the overall effectiveness of the Board and taking account of succession planning. All Board appointments will continue to be made on a merit basis based on the Group's business needs from time to time, while taking into account the benefit of diversity. In accordance with the Company's nomination policy, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Selection of Board candidates will be based on a range of factors with reference to the Group's business needs, including but not limited to age, gender, nationality, educational background, industry and professional experience. The Nomination Committee will select board members in accordance with the Company's nomination policy and will also give consideration to the Company's Board diversity policy. The Nomination Committee will review the Board diversity policy at least annually to ensure its continued effectiveness.

BOARD MEETINGS

The Company has adopted 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 Board committee meetings, reasonable notice is generally served. Agendas or relevant documents of the Board or Board committee meetings shall be despatched to the Directors or members of the committees at least three 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 Board 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 meetings of the Board and Board committees thoroughly are recorded all matters under consideration and decisions made including any problems raised by the Directors. Draft minutes of each Board meeting and Board 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 Board committee meetings.

During the year ended 31 December 2020, the Company held five Board meetings. The attendance of each Director at the Board meetings is set out below:

Directors	Attendance/ Number of meetings held
Executive Directors	
Mr. Meng Shuqi	5/5
Mr. Li Zhengquan	5/5
Mr. Yang Cheng	5/5
Non-executive Directors	
Mr. Li Shimeng(Note)	N/A
Mr. Yan Kaidan(Note)	N/A
Independent non-executive Directors	
Mr. Xue Jun	5/5
Ms. Li Yiqing	5/5
Ms. Wang Ying	5/5

Note: With effect from 2 March 2020, each of Mr. Li Shimeng and Mr. Yan Kaidan resigned as a non-executive Director, respectively.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The Chairman and Chief Executive Officer of the Company are independent of each other and are held by different individuals. Mr. Meng Shuqi, the Chairman of the Company, is responsible for the management of the Board and the formulation of the overall strategy of the Group. Mr. Peng Cheng, the Chief Executive Officer of the Company, is responsible for the implementation of the Group's strategies and business strategies formulated by the Board and the day-to-day operations of the Group, including product development management and channel operations.

GENERAL MEETING

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

During the year ended 31 December 2020, one annual general meeting was held. The attendance of each Director at the general meeting is set out below:

Directors	Attendance/ Number of meetings held
Executive Directors	
Mr. Meng Shuqi	1/1
Mr. Li Zhengquan	1/1
Mr. Yang Cheng	1/1
Non-executive Directors	
Mr. Li Shimeng(Note)	N/A
Mr. Yan Kaidan(Note)	N/A
Independent non-executive Directors	
Mr. Xue Jun	1/1
Ms. Li Yiqing	1/1
Ms. Wang Ying	1/1

Note: With effect from 2 March 2020, each of Mr. Li Shimeng and Mr. Yan Kaidan resigned as a non-executive Director, respectively.

The forthcoming AGM is expected to be held on 13 October 2021. The notice of the AGM will be sent to the Shareholders at least 20 clear business days before the AGM.

BOARD COMMITTEES

The Company has three principal Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination 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.

During the year ended 31 December 2020, the Company held five Board committee meetings. The attendance of each Director at the Board committee meetings is set out below:

Directors	Attendance/Number of meetings held Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors			
Mr. Meng Shuqi	N/A	1/1	1/1
Mr. Li Zhengquan	N/A	N/A	N/A
Mr. Yang Cheng	N/A	N/A	N/A
Non-executive Directors			
Mr. Li Shimeng (Note)	N/A	N/A	N/A
Mr. Yan Kaidan (Note)	N/A	N/A	N/A
Independent non-executive Directors			
Mr. Xue Jun	3/3	1/1	1/1
Ms. Li Yiqing	3/3	1/1	1/1
Ms. Wang Ying	3/3	1/1	1/1

Note: With effect from 2 March 2020, each of Mr. Li Shimeng and Mr. Yan Kaidan resigned as a non-executive Director, respectively.

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with the CG Code. The Audit Committee consists of three members, namely Mr. Xue Jun, Ms. Li Yiqing and Ms. Wang Ying, all being our independent non-executive Directors. Mr. Xue Jun is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise, and provide an independent view of the effectiveness of, the financial reporting process and the risk management and internal control systems of the Group, oversee the audit process and perform other duties and responsibilities as assigned by the Board.

During the year ended 31 December 2020, major works performed by the Audit Committee included, among others, (i) discussion in relation to the delay of the Group's annual results for the year ended 31 December 2019; (ii) reviewing the Group's annual results announcement for the year ended 31 December 2019; (iii) reviewing the Group's internal control policy, risk management systems and internal audit functions; (iv) reviewing the Group's interim results for the six months ended 30 June 2020 and audit plan; and (v) discussing and addressing audit issues raised by the external auditors of the Company.

The external auditors of the Company were invited to attend the Audit Committee meetings without the presence of the executive Directors to discuss with the Audit Committee issues arising from the audit and financial reporting matters. There was no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors of the Company.

Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference in compliance with the CG Code. The Remuneration Committee has four members, comprising three independent non-executive Directors, namely Ms. Li Yiqing, Mr. Xue Jun and Ms. Wang Ying, and one executive Director, namely Mr. Meng Shuqi. Ms. Li Yiqing is the chairwoman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and make recommendations to the Board on the policy and structure of the remuneration for the Directors and senior management (i.e. the model described in the code provision B.1.2(c)(ii) of the CG Code is adopted) and make recommendations to the Board on employee benefit arrangement.

During the year ended 31 December 2020, the Remuneration Committee reviewed the remuneration policy and structure and made recommendations to the Board on determining the annual remuneration packages of the executive Directors and the senior management and other related matters.

Pursuant to code provision B.1.5 of the CG Code, details of the annual remuneration of the senior management by band for the year ended 31 December 2020 are set out under "Compensation of Directors and Senior Management" in the Director's Report.

Nomination Committee

The Company has established a Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee consists of three independent non-executive Directors, being Mr. Xue Jun, Ms. Li Yiqing and Ms. Wang Ying, and one executive Director, being Mr. Meng Shuqi, who is the chairman of the Nomination Committee.

The Nomination Committee is responsible for reviewing and assessing the composition of the Board and the independence of the independent non-executive Directors and making recommendations to the Board on appointment and removal of Directors. 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 year ended 31 December 2020, the Nomination Committee reviewed the structure, size and composition of the Board, assessed the independence of independent non-executive Directors and recommended the Board on the re-election of Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the Directors and the Group's employees who, because of their office or employment, are likely to possess inside information in relation to the Group or the Company's securities.

Having made specific enquiry of all Directors, they have all confirmed that they have complied with the Model Code during the year ended 31 December 2020. In addition, the Company is not aware of any non-compliance of the Model Code by the relevant employees of the Group during the year ended 31 December 2020.

FRAMEWORK FOR DISCLOSURE OF INSIDE INFORMATION

The Company has in place a policy on handling and dissemination of inside information which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way so as not to place any person in a privileged dealing position and to allow time for the market to determine the price of the listed securities of the Company with the latest available information. This policy also provides guidelines to staff of the Company to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirements. It also includes appropriate internal control and reporting systems to identify and assess potential inside information. Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the websites of the Stock Exchange and the Company, according to the requirements of the Listing Rules.

EXTERNAL AUDITOR

For the year ended 31 December 2020, the fees paid/payable to the external auditors of the Company were as follows:

Nature of Services	RMB'000
Moore Stephens CPA Limited	
Audit and audit-related services (including annual audit, interim review, audit of major transaction and advisory for tax and compliance services)	6,700
Non-audit services	—
Elite Partners CPA Limited	
Audit services (including annual audit)	3,500
Non-audit services	—
Total	10,200

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of the consolidated financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flows during the year ended 31 December 2020. A statement from the auditor about its reporting responsibilities on the consolidated financial statements is set out on pages 60 to 61 of this annual report. In preparing the consolidated financial statements for the year ended 31 December 2020, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimated that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis.

The Directors are 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.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the section headed "Management Discussion and Analysis" as set out on pages 16 to 26 of this annual report.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for evaluating and determining the nature and extent of the risk the Company is willing to take to achieve the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board has developed its internal management systems and has an internal audit function, which include but not limited to the following processes:

- the Board receives regular updates from the senior management and reviews the Group's business plan, financial results, investment strategies and business indicators to ensure that the business risks are identified and managed;

- the senior management supervises the Group's business performance on an on-going basis via regular meetings with respective departments and project teams, to identify potential risks and develop strategies to address the risk;

- the Group monitors a wide range of indicators, such as game statistics, player feedbacks and employee turnover rate, and responds promptly if any risk indicators arise; and

- the Group works with external legal, accounting and other professional advisers at various jurisdictions to ensure that it is in compliance with relevant legislation and regulations.

However, the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is responsible for overseeing the management in the design, implementation and monitoring of such systems, and reviewing and maintaining appropriate and effective risk management and internal control systems. During the year ended 31 December 2020, the Board conducted review of the risk management and internal control systems of the Group and considered the risk management and internal control systems of the Group have been implemented effectively and are adequate. Such review covered financial, compliance and operational control. The Board also discussed the business risk, financial risk, compliance risk, operational risk and other risks. Pursuant to the Company's announcement dated 18 January 2021, the Company engaged an independent internal control consultant to conduct a comprehensive review of the internal control system, policies and procedures of the Group and make recommendations for rectification. In response to the major internal control weaknesses identified in the internal control review, the Company has implemented all remedial measures in accordance with the rectification recommendations as at the date as disclosed in the Company's announcement dated 16 August 2021 of this report, and will continue to improve its internal control system, to meet its obligations under the Listing Rules and to satisfy the development requirements of the Company.

In addition, the Board has reviewed and considered that the resources, staff qualifications and experience, training programs and budget of the Company's accounting, compliance, legal and financial reporting functions are adequate and effective during the year ended 31 December 2020.

The Group attaches utmost importance to the proper handling and dissemination of inside information. Internal policies have been put in place to ensure that inside information is adequately controlled. To ensure the confidentiality and the timely disclosure of inside information, all employees have been provided with learning materials and guidelines regarding the handling and dissemination of inside information. Our data system controls have been implemented to ensure the access to sensitive data is restricted to authorized personnel only.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Articles of Association was conditionally adopted by the Board on 23 June 2018 and became effective on the Listing Date. A copy of the Articles of Association is available on the websites of the Company and the Stock Exchange. Since the Listing Date and up to the date of this annual report, there was no significant change in constitutional documents of the Company.

SHAREHOLDERS

The Company was incorporated in the Cayman Islands. Pursuant to the Articles of Association, general meetings of the Company shall also be convened on the written requisition of any one or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. Such meeting shall be held within two months after the deposit of such requisition.

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

Under article 64 of the Articles of Association, any one or more Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company may at all times have the right, by a written requisition to the Board or the joint company secretaries of the Company, to require the convening of an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. 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.

The Board is not aware of any provisions allowing the Shareholders to put forward proposals at general meetings of the Company under the Articles of Association and the Companies Law. Shareholders who wish to put forward proposals at general meetings of the Company may refer to the preceding paragraph to make a written requisition to require the convening of an extraordinary general meeting of the Company.

Detailed procedures for Shareholders to propose a person for election as a Director are published on the Company's website. For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company as follows:

Address: No. 2-18-1902, Long Shan Road, Xin Wu District, Wuxi, Jiangsu Province, PRC

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

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.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 6 September 2017 as an exempted company with limited liability under the Companies Law. The Group is a leading game developer and operator in China with a global reach. Since its inception in 2008, the Group has principally engaged in the R&D, operation and licensing of a number of popular web games.

The activities and particulars of the Company's subsidiaries are shown under note 37 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year ended 31 December 2020 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and consolidated statement of profit or loss.

BUSINESS REVIEW

A review of the Group's business during the year ended 31 December 2020, which includes a discussion of the principal challenges and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year ended 31 December 2020, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. The review and discussion form part of this Directors' report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has engaged professional service firms for advice regarding compliance matters with various jurisdictions which the Group's subsidiaries operate, and has kept a close watch on any new laws or regulatory changes.

During the performance of the audit works of the Company's consolidated financial statements for the year ended 31 December 2019, PricewaterhouseCoopers, the Company's former auditor, identified certain unresolved audit issues in connection with the audit of the Company's consolidated financial statements as at and for the year ended 31 December 2019. The publication of annual results and dispatch of annual report for the year ended 31 December 2019 was therefore delayed. Accordingly, the Company was not able to comply with the financial reporting provisions under Rules 13.46 and 13.49 of the Listing Rules.

During the performance of the audit works of the Company's consolidated financial statements for the year ended 31 December 2020, Moore Stephens CPA Limited, the Company's former auditor, identified certain unresolved audit issues in connection with the audit of the Company's consolidated financial statements as at and for the year ended 31 December 2020. The publication of annual results and dispatch of annual report for the year ended 31 December 2020 was therefore delayed. Accordingly, the Company was not able to comply with the financial reporting provisions under Rules 13.46 and 13.49 of the Listing Rules.

Save as disclosed above, during the year ended 31 December 2020 and up to the date of this annual report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company in material respects.

RESULTS AND DIVIDEND

The consolidated financial results of the Group for the year ended 31 December 2020 are set out on pages 62 to 69 of this annual report. The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2020.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 October 2021 to 13 October 2021, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM to be held on 13 October 2021 at 11 a.m. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 7 October 2021.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 8 of this annual report.

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 16 to the consolidated financial statements on pages 131 to 132 of this annual report.

ENVIRONMENT 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. See Appendix — Environmental, Social and Governance Report to this annual report for further details.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2020 are set out in note 25 to the consolidated financial statements on page 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 the Consolidated Statement of Changes in Equity on pages 66 to 67 of this annual report and in note 26 to the consolidated financial statements on page 146 of this annual report, respectively. As at 31 December 2020, the Company had distributable reserves amounting to RMB4,055.3 million.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any Shares for the year ended 31 December 2020.

PRE-EMPTIVE RIGHTS

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

USE OF NET PROCEEDS

The Shares were listed on the Stock Exchange on the Listing Date and the net proceeds raised from the Global Offering amounted to approximately HK$874 million (approximately RMB769.1 million). There was no change in the intended use of net proceeds as previously disclosed in the Prospectus.

As at 31 December 2020, the Company has fully utilised RMB769.1 million of the net proceeds from the Global Offering. The following table sets out the breakdown of the use of proceeds from the Global Offering:

Business Strategy	**Net Proceeds from the Global Offering** (RMB million)	**Utilized amount as at 31 December 2020** (RMB million)
Proprietary online games and other IPs	230.7	230.7
Acquisition of popular IPs or other related assets, or investment in or acquisition of overseas or China-based popular IP providers	230.7	230.7
Investment in game developers and publishers	153.9	153.9
Fund of our game publishing business	76.9	76.9
Working capital and other general corporate purposes	76.9	76.9
Total	**769.1**	**769.1**

SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

To provide the Company with additional funds, enhance its financial strength and broaden its shareholder and capital base, as well as to enhance its capabilities in distributing games abroad through strategic co-operation, on 16 December 2020, the Company entered into a subscription agreement with DianDian Interactive Holding ("**DianDian Interactive**"), an independent third party, pursuant to which the Company conditionally agreed to allot and issue to DianDian Interactive 133,700,000 new Shares (the "**Subscription Shares**") at a subscription price of HK$2.59 per Share and a total price of HK$346,283,000 (the "**Subscription**"). The Subscription Shares represented approximately 5.10% of the existing issued share capital of the Company as at the date of the announcement and approximately 4.86% of the Company's issued share capital as enlarged by the issue of the Subscription Shares. The issuance was completed on 29 December 2020 and the Subscription Shares were issued under the general mandate granted to the Directors at the annual general meeting held on 31 July 2020. The closing market price of the Shares on the date when the issuance terms were determined (being 16 December 2020) was HK$2.60 and the net price per Subscription Share was approximately HK$2.588 after deducting subscription-related expenses. The gross proceeds amounted to HK$346.3 million and the net proceeds amounted to approximately HK$345.9 million.

The intended and actual use of proceeds from the Subscription up to 31 December 2020 were as follows:

Net proceeds raised	Proposed use of proceeds	Actual use of proceeds up to 31 December 2020	Unutilised proceeds	Expected timeline for use of unutilised proceeds
Approximately HK$345.9 million	(i) Payment of the 2020 and 2021 installments for the acquisition of the Xinla Group	Nil	Approximately HK$240.36 million	By 2022
	(ii) General working capital purposes and the development of its gaming business	Nil	Approximately HK$105.54 million	By 2021

For details of the Subscription, please refer to the Company's announcements dated 16 December 2020 and 29 December 2020, respectively.

DIRECTORS

The Board currently consists of the following six Directors:

Executive Directors

Mr. Meng Shuqi *(Chairman)*
Mr. Li Zhengquan
Mr. Yang Cheng

Independent Non-executive Directors

Mr. Xue Jun
Ms. Li Yiqing
Ms. Wang Ying

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 11 to 15 in the section headed "Profiles of Directors and Senior Management" in this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company. Pursuant to their respective service contracts, (i) Mr. Meng Shuqi has agreed to act as executive Director for an initial term of three years commencing from 18 July 2018, which was renewed for three more years on 18 July 2021; (ii) Mr. Yang Cheng agreed to act as executive Director with effect from 29 October 2018 for a term of three years; and (iii) Mr. Li Zhengquan agreed to act as executive Director with effect from 30 April 2019 for a term of three years. The above service contracts may be terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the independent non-executive Directors has signed an appointment letter with the Company for an initial term of three years commencing from his/her respective appointment date, which may be terminated by not less than three months' notice in writing served by either of the Director or the Company. Under the respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee.

The appointments of the Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

None of the Directors (including the Directors proposed for re-election at the AGM) has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

CONTRACT WITH CONTROLLING SHAREHOLDERS

Other than disclosed in the section headed "Related Party Transactions" in note 35 to the consolidated financial statements, no contract of significance was entered into between the Company or any of its subsidiaries and the controlling shareholders of the Company or any of its subsidiaries during the year ended 31 December 2020 or subsisted at the end of the year and no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries was entered into during the year ended 31 December 2020 or subsisted at the end of the year ended 31 December 2020.

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

Other than disclosed in note 11 to the consolidated financial statements, no transaction, arrangement and contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director or any entity connected with such a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2020.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, 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 individual in the Group are set out in notes 10 and 11 to the consolidated financial statements in this annual report. The annual remunerations of senior management (excluding those who are also the Directors) for the year ended 31 December 2020 fall within the following:

	Number of individuals (Note)
HK$1 to HK$500,000	**2**
HK$500,001 to HK$1,000,000	**2**
HK$1,000,001 to HK$1,500,000	**—**
HK$1,500,001 to HK$2,000,000	**—**
HK$2,000,001 to HK$2,500,000	**—**
HK$2,500,001 to HK$3,000,000	**—**
HK$3,000,001 to HK$3,500,000	**1**
	5

Note: With effect from 26 January 2021, Ms. Guo Hua resigned as the head of Testing Department of the Company and ceased to be a senior management of the Group.

For the year ended 31 December 2020, no emoluments were paid by the Group to any Directors 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 had waived any emoluments for the year ended 31 December 2020.

Except as disclosed above, no other payments had been made or were payable, for the year ended 31 December 2020, by our Group to or on behalf of any of the Directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the section headed "Relationship with our Controlling Shareholders" in the Prospectus, 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.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background

On 11 December 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the "**FITE Regulations**"), which were amended on 10 September 2008 and 6 February 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "**Qualification Requirements**"). Currently, none of the applicable PRC laws, regulations or rules provided clear guidance or interpretation on the Qualification Requirements. Therefore, in order for the Company to be able to carry on its business in the PRC, the Group has entered into the Contractual Arrangements to enable the Company to exercise and maintain control over operations of the Consolidated Affiliated Entities and to consolidate these companies' financial results into the Company's results under IFRSs as if they are wholly-owned subsidiaries of the Company.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have taken and plan to continue to take specific steps to comply with the Qualification Requirements.

Up to the date of this annual report, there is no further update in relation to the Qualification Requirement. The Contractual Arrangements which were in place during the year ended 31 December 2020 are as follows:

1. The voting rights proxy agreement and powers of the attorney dated 13 April 2018, pursuant to which each of the Registered Shareholders irrevocably appointed Qianhai Huanjing or the Directors and their successors as his attorney-in-fact to exercise such shareholder's rights in Shenzhen 7Road (the "**Proxy Agreement and Powers of Attorney**").

2. The exclusive option agreement dated 13 April 2018, pursuant to which Registered Shareholders jointly and severally granted irrevocably to Qianhai Huanjing the exclusive rights to require the Registered Shareholders to transfer any or all their equity interests and/or assets in Shenzhen 7Road to Qianhai Huanjing 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. The Registered Shareholders have also undertaken, subject to the relevant PRC laws and regulations, they will return to Qianhai Huanjing any consideration received in the event that Qianhai Huanjing exercises the option to acquire the equity interests of Shenzhen 7Road (the "**Exclusive Option Agreement**").

3. The equity pledge agreement dated 13 April 2018, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in Shenzhen 7Road to Qianhai Huanjing as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements (the "**Equity Pledge Agreement**").

4. the exclusive business cooperation agreement dated 13 April 2018, pursuant to which Shenzhen 7Road agreed to engage Qianhai Huanjing as its exclusive provider of technical support, consultation and other services and Shenzhen 7Road agreed to pay service fees to Qianhai Huanjing (the "**Exclusive Business Cooperation Agreement**").

No service fee was paid pursuant to the Exclusive Business Cooperation Agreement for the year ended 31 December 2020.

The revenue and net profit of the Consolidated Affiliated Entities subject to the Contractual Arrangements amounted to approximately RMB13.4 million and RMB3.1 million for the year ended 31 December 2020, respectively. The total assets and total liabilities of the Consolidated Affiliated Entities subject to the Contractual Arrangements amounted to approximately RMB925.1 million and RMB513.1 million as at 31 December 2020, respectively.

Risks associated with the Contractual Arrangements

For risks associated with the Contractual Arrangements, please see the section headed "Risk Factors — Risks Relating to our Corporate Structure" in the Prospectus for details.

Material change in relation to the Contractual Arrangements

During the year ended 31 December 2020, there was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

Unwinding the Contractual Arrangements

The Company will unwind the Contractual Arrangements as soon as the laws allows the business of the Consolidated Affiliated Entities to be operated without the Contractual Arrangements.

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

Waiver from the Stock Exchange

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

Annual review

The Directors, including the independent non-executive Directors, have reviewed the Contractual Arrangements and have confirmed that the Contractual Arrangements were entered into (i) in the ordinary and usual course of business of the Group, (ii) on normal commercial terms, and (iii) in accordance with the respective agreement governing them on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole. In addition, the independent non-executive Directors confirm that (i) the transactions as contemplated under the Contractual Arrangements carried out during the year ended 31 December 2020 have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by Shenzhen 7Road to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) no new contracts have been renewed and/or adopted as a result of the Contractual Arrangements.

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

Performance Guarantee

Reference is made to the Company's circular dated 26 September 2019 in relation to the acquisition of Osmanthus Vale Holdings Limited (the "**Circular**"). Unless otherwise defined, capitalized terms used in this section shall have the same meanings as those defined in the Circular.

Pursuant to the Sale and Purchase Agreement, as a protection for the Company, the Company and the Vendors agreed to agree certain compensation terms based on the performance guarantee of the Target Business for the Profit Guaranteed Years, which includes Profit Compensation and Goodwill Impairment Compensation for the financial year 2020 and the compensation for the year ended 31 December 2020 (collectively, the "**2020 Performance Guarantee**"). As disclosed in the Circular, the Net Profit Benchmark of the Target Business for the year ended 31 December 2020 was RMB134.00 million. For further details of the 2020 Performance Guarantee arrangement, please refer to the Circular.

The Board is pleased to announce that, based on the audit results of Osmanthus Vale Holdings Limited and its subsidiaries for the year ended 31 December 2020, the Actual Net Profit of the Target Business for the year ended 31 December 2020 was higher than the Net Profit Benchmark, therefore, the 2020 Performance Guarantee has been completed. Accordingly, since there is no Profit Compensation and Goodwill Impairment Compensation for the year ended 31 December 2020, there will be no compensation for the year ended 31 December 2020 in accordance with the Sale and Purchase Agreement.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

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

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

During the year ended 31 December 2020, the Company did not enter into any equity-linked agreement.

MATERIAL LEGAL PROCEEDINGS

(i) **Legal proceedings of Shenzhen 7Road**

On 23 October 2020, Shenzhen 7Road, a wholly-owned subsidiary of the Company, received a notice (not being served with legal procedures) from Proficient City Limited, a wholly-owned subsidiary of Digital Hollywood Interactive Limited ("**Digital Hollywood**", stock code: 2022), where Proficient City Limited, as the plaintiff, filed a verified application with the United States District Court of Dallas County, Texas (the "**Texas Court**") for a temporary restraining order against Shenzhen 7Road, as the defendant. On 12 November 2020, Shenzhen 7Road received from the Texas Court an order that the claims of Proficient City Limited against Shenzhen 7Road were dismissed and the temporary restraining order against Shenzhen 7Road was invalidated immediately. Since then, the legal proceedings in relation to the temporary restraining order had ceased to continue and there was no impact on the ordinary business operation of the Group.

Details of the above legal proceedings are set out in the announcements of the Company dated 23 October 2020 and 12 November 2020, respectively.

(ii) **Legal proceedings commenced by Qianhai Huanjing in March 2021**

On 3 March 2021, the Company was informed by a subsidiary, Shenzhen Qianhai Huanjing Network Technology Co., Ltd. ("**Qianhai Huanjing**") that Qianhai Huanjing, as the plaintiff, filed a lawsuit (the "**March 2021 Lawsuit**") with the Shenzhen Intermediate People's Court (the "**Shenzhen Intermediate Court**") against Proficient City Limited, as the defendant, in relation to intellectual property rights dispute over the online game Wartune (神曲), and has received the Notice of Case Acceptance from the Shenzhen Intermediate Court. As at the date of this annual report, the March 2021 Lawsuit has not yet been heard and the March 2021 Lawsuit is not expected to affect the normal business operation of the Group.

Details of the above legal proceedings are set out in the announcement of the Company dated 3 March 2021.

(iii) **Legal proceedings commenced by Qianhai Huanjing in April 2021**

On 28 April 2021, the Company was informed by Qianhai Huanjing that Qianhai Huanjing, as the plaintiff, has filed a lawsuit (the "**April 2021 Lawsuit**") with the Shenzhen Intermediate Court against Guangzhou Zhang Ying Kong Information Technology Company Limited (廣州掌贏控信息科技有限公司) and Angame Inc., as the defendants, in relation to the intellectual property rights contractual dispute over the mobile game version of the online game DDTank (mobile) (彈彈堂(手遊)), and had received the Notice of Case Acceptance from the Shenzhen Intermediate Court. As at the date of this annual report, the April 2021 Lawsuit has not yet been heard and the April 2021 Lawsuit is not expected to affect the normal business operation of the Group.

Details of the above legal proceedings are set out in the announcement of the Company dated 28 April 2021.

LOAN AND GUARANTEE

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

RSU SCHEME

On 6 March 2018, the RSU Scheme was approved and adopted by the Directors of our Company. The purpose of the RSU Scheme is to incentivize Directors, senior management and employees of our Group for their contribution to our Group, 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. Persons eligible to receive RSUs under the RSU Scheme are existing employees, directors (whether executive or non-executive, but excluding independent non-executive directors) or officers of our Company or any member of our Group (the "**RSU Eligible Persons**"). Our Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

The RSU Scheme will be valid and effective for a period of ten (10) years, commencing from 6 March 2018 (unless it is terminated earlier in accordance with its terms). As at 31 December 2020, the remaining life of the RSU Scheme was approximately seven years. The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the trustee for the RSU Scheme for the purpose of the RSU Scheme from time to time. Further details of the principal terms of the RSU Scheme are set out in the Prospectus.

Our Company has appointed Mr. Meng Shuqi and Mr. Hu Min as the trustees (the "**RSU Trustees**") to assist in the administration of the RSU Scheme. Our Company may (i) allot and issue Shares to the RSU Trustees to be held by the RSU Trustees and which will be used to satisfy the Shares underlying the RSUs upon exercise and/or (ii) direct and procure the RSU Trustees to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the Shares underlying the RSUs upon exercise. Our Company shall procure that sufficient funds are provided to the RSU Trustees by whatever means as our Board may in its absolute discretion determine to enable the RSU Trustees to satisfy its obligations in connection with the administration of the RSU Scheme.

On 31 March 2018, RSUs representing 100,800,000 underlying Shares were granted to 66 participants in the RSU Scheme pursuant to the RSU Scheme. Please refer to note 27 to the consolidated financial statements on pages 147 to 148 of this annual report for details.

Details of the movements of the RSUs granted under the RSU Scheme during the year ended 31 December 2020 are set out below:

Category of the RSU Grantees	Position held with our Group	Outstanding as at 31 December 2019	Granted during the year ended 31 December 2020	Vested during the year ended 31 December 2020	Lapsed during the year ended 31 December 2020	Outstanding as at 31 December 2020	Date of grant	Approximate percentage of interest as at 31 December 2020[1]
Director of our subsidiary and/or Consolidated Affiliated Entities								
Ms. Xu Jing	head of the data center [2]	4,550,000	–	–	1,950,000	2,600,000	31 March 2018	0.09%
Senior management members of our Company								
Ms. Guo Hua	head of the testing department	700,000	–	–	300,000	400,000	31 March 2018	0.01%
Mr. Shi Shuanghua	head of the arts department	875,000	–	–	375,000	500,000	31 March 2018	0.02%
Others	*(Note 3)*	13,422,500	–	–	9,182,500	4,240,000	31 March 2018	0.15%
Total		**19,547,500**	**–**	**–**	**11,807,500**	**7,740,000**		

Notes:

(1) The calculation is based on the total number of 2,753,200,000 Shares in issue as at 31 December 2020.

(2) With effect from 6 July 2020, Ms. Xu Jing ceased to be a director of Huoerguosi 7Road.

(3) As at 31 December 2020, the other employees of the Group included 17 game development employees and three game operation employees.

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.

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. Since the Listing Date, the Company did not have any share option schemes.

Further details of the movements in the outstanding RSUs are set out in note 27 to the consolidated financial statements on pages 147 to 148 of this annual report.

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

As at 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/she 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:

INTERESTS IN THE COMPANY

Name of Director/ Chief Executive	Capacity/ Nature of interest	Number of Shares or underlying Shares held(2)	Approximate percentage of issued share capital(1)
Mr. Meng Shuqi (3) (4)	Interest in a controlled corporation	528,854,000	19.20%

Notes:

(1) The calculation is based on the total number of 2,753,200,000 Shares in issue as at 31 December 2020.

(2) All interest stated are long positions.

(3) 429,922,000 Shares are registered under the name of Ben 7Road Holdings Limited, the issued share capital of which is wholly owned by Mr. Meng Shuqi. Accordingly, Mr. Meng Shuqi is deemed to be interested in all the Shares held by Ben 7Road Holdings Limited for the purpose of Part XV of the SFO.

(4) 98,932,000 Shares are registered under the name of 7Road Elite Holdings Limited, the issued share capital of which is wholly owned by Ben 7Road Holdings Limited. Ben 7Road Holdings Limited is wholly-owned by Mr. Meng Shuqi. Accordingly, each of Mr. Meng Shuqi and Ben 7Road Holdings Limited is deemed to be interested in all the Shares held by 7Road Elite Holdings Limited for the purpose of Part XV of the SFO.

INTERESTS IN OTHER MEMBERS OF THE GROUP

Name of Director/ Chief Executive	Name of other members of the Group	Capacity/ Nature of interest	Approximate percentage of registered capital (1)
Mr. Meng Shuqi	Shenzhen 7Road(2)	Beneficial owner	21.50%
	Shenzhen Qianqi(2)	Interest in a controlled corporation	21.50%
	Huoerguosi 7Road(2)	Interest in a controlled corporation	21.50%

Notes:

(1) All interests stated are long positions.

(2) Each of Shenzhen 7Road, Shenzhen Qianqi and Huoerguosi 7Road is accounted for a subsidiary of the Company by virtue of the Contractual Arrangements.

Save as disclosed above, as at 31 December 2020, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code; or to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO.

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

So far as the Directors were aware, as at 31 December 2020, the following persons (other than the Directors and the chief executive of the Company) or corporations who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO; or which were required to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of part XV of the SFO, were as follows:

Name	Capacity/nature of interest	Number of Shares or underlying Shares held[2]	Approximate percentage of registered capital[1]
Baohu Holdings Limited	Beneficial owner[3]	352,714,000	12.81%
Shanghai Bao Hu Investment Management Center (Limited Partnership)	Interest in a controlled corporation[3]	352,714,000	12.81%
Shanghai Bao Pu Investment Management Co., Ltd.	Interest in a controlled corporation[3]	353,586,000	12.84%
Ningbo Hao Chu Investment Management Co., Ltd.	Interest in a controlled corporation[3]	353,586,000	12.84%
Mr. Zhou Hao	Interest in a controlled corporation[3]	353,586,000	12.84%
Zhejiang Century Huatong Group Co., Ltd.	Interest in a controlled corporation[4]	274,366,000	9.97%
Shengqu Technology Korean Limited	Interest in a controlled corporation[4] Beneficial owner[4]	88,764,000 51,902,000	3.22% 1.89%
Shangyulongcheng Holdings Limited	Beneficial owner[5]	174,410,000	6.33%
Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership)	Interest in a controlled corporation[5]	174,410,000	6.33%

Name	Capacity/nature of interest	Number of Shares or underlying Shares held[2]	Approximate percentage of registered capital[1]
Zhejiang Long Xin Equity Investment Management Co., Ltd.	Interest in a controlled corporation[5]	174,410,000	6.33%
Wolong Holding Group Co., Ltd.	Interest in a controlled corporation[5]	174,410,000	6.33%
Mr. Chen Jiancheng	Interest in a controlled corporation[5]	174,410,000	6.33%
Ms. Chen Yanni	Interest in a controlled corporation[5]	174,410,000	6.33%
Ben 7Road Holdings Limited	Beneficial owner[6] Interest in a controlled corporation[6]	429,922,000 98,932,000	15.62% 3.59%
World 7Road Holdings Limited	Beneficial owner[7] Interest in a controlled corporation[7]	331,130,000 80,000,000	12.03% 2.91%
Mr. Hu Min	Interest in a controlled corporation[7]	411,130,000	14.93%
Songshuxing Holdings Limited	Beneficial owner[8]	189,936,000	6.89%
Mr. Song Shuxing	Interest in a controlled corporation[8]	189,936,000	6.89%
Mr. Guan Jianzhong	Interest in a controlled corporation[9]	233,801,601	8.49%
Ms. Han Jianhong	Spousal interest[9]	233,801,601	8.49%
Hangzhou Haoming Investment Co., Ltd.	Interest in a controlled corporation[9]	233,801,601	8.49%
Zhejiang Jiahua Group Co., Ltd.	Interest in a controlled corporation[9]	233,801,601	8.49%
Shanghai Guanzhao Investment Center (L.P)	Beneficial owner[9]	175,409,856	6.37%

Notes:

(1) The calculation is based on the total number of 2,753,200,000 Shares in issue as at 31 December 2020.

(2) All interests stated are long positions.

(3) 352,714,000 Shares are registered under the name of Baohu Holdings Limited, the entire issued share capital of which is directly owned by Shanghai Bao Hu Investment Management Center (Limited Partnership). Accordingly, Shanghai Bao Hu Investment Management Center (Limited Partnership) is deemed to be interested in such number of Shares held by Baohu Holdings Limited. In addition, the general partner of Shanghai Bao Hu Investment Management Center (Limited Partnership) is Shanghai Bao Pu Investment Management Co., Ltd., which is in turn owned by Ningbo Hao Chu Investment Co., Ltd. as to 40%; and Ningbo Hao Chu Investment Co., Ltd. is owned by Mr. Zhou Hao as to 70%. Accordingly, each of Shanghai Bao Pu Investment Management Co., Ltd., Ningbo Hao Chu Investment Management Co., Ltd. and Mr. Zhou Hao is deemed to be interested in such number of Shares held by Baohu Holdings Limited. In addition, 872,000 Shares are registered under the name of Baopu Hong Kong Limited, the entire issued share capital of which is directly owned by Shanghai Bao Pu Investment Management Co., Ltd. Shanghai Bao Pu Investment Management Co., Ltd. is owned by Ningbo Hao Chu Investment Co., Ltd. as to 40%; and Ningbo Hao Chu Investment Co., Ltd. is owned by Mr. Zhou Hao as to 70%. Accordingly, each of Shanghai Bao Pu Investment Management Co., Ltd., Ningbo Hao Chu Investment Co., Ltd. and Mr. Zhou Hao is deemed to be interested in such number of Shares held by Baopu Hong Kong Limited.

(4) 88,764,000 Shares are registered under the name of Actoz Soft Hong Kong Limited, which is wholly owned by Actoz Soft Co. Ltd, which is owned as to 51.08% by Shengqu Technology Korean Limited. Accordingly, Shengqu Technology Korean Limited is deemed to be interested in such number of Shares held by Actoz Soft Hong Kong Limited. Together with the Shares directly owned by Shengqu Technology Korean Limited, Shengqu Technology Korean Limited is interested in approximately 5.11% of the issued share capital of the Company. In addition, 133,700,000 Shares are registered under the name of DianDian Interactive Holding. DianDian Interactive Holding and Shengqu Technology Korean Limited are indirectly wholly owned by Zhejiang Century Huatong Group Co., Ltd.. Accordingly, Zhejiang Century Huatong Group Co., Ltd. is deemed to be interested in such number of Shares held or deemed to be held by DianDian Interactive Holding and Shengqu Technology Korean Limited.

(5) 174,410,000 Shares are registered under the name of Shangyulongcheng Holdings Limited, the entire issued share capital of which is directly owned by Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership). Accordingly, Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership) is deemed to be interested in such number of Shares held by Shangyulongcheng Holdings Limited. In addition, the general partner of Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership) is Zhejiang Long Xin Equity Investment Management Co., Ltd., which is directly owned by Wolong Holding Group Co., Ltd. Wolong Holding Group Co., Ltd. is owned directly as to 48.93% by Mr. Chen Jiancheng, 38.73% by Ms. Chen Yanni (daughter of Mr. Chen Jiancheng) and 12.34% by certain other shareholders. Accordingly, each of Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership), Zhejiang Long Xin Equity Investment Management Co., Ltd., Wolong Holding Group Co., Ltd., Mr. Chen Jiancheng and Ms. Chen Yanni is deemed to be interested in such number of Shares held by Shangyulongcheng Holdings Limited.

(6) The entire issued share capital of 7Road Elite Holdings Limited is directly owned by Ben 7Road Holdings Limited. Accordingly, Ben 7Road Holdings Limited is deemed to be interested in such number of Shares held by 7Road Elite Holdings Limited.

(7) The entire issued share capital of 7Road Talent Holdings Limited is directly owned by World 7Road Holdings Limited. Accordingly, World 7Road Holdings Limited is deemed to be interested in such number of Shares held by 7Road Talent Holdings Limited. In addition, World 7Road Holdings Limited is wholly-owned by Mr. Hu Min. Accordingly, Mr. Hu Min is deemed to be interested in such number of Shares held by World 7Road Holdings Limited and 7Road Talent Holdings Limited.

(8) The entire issued share capital of Songshuxing Holdings Limited is directly owned by Mr. Song Shuxing. Accordingly, Mr. Song Shuxing is deemed to be interested in such number of Shares held by Songshuxing Holdings Limited.

(9) 175,409,856 Shares and 58,391,745 Shares are registered under the name of Shanghai Guanzhao Investment Center (L.P) and Shanghai Chengpei Investment Centre (L.P.), respectively, which are in turn owned as to 53.26% and 92.38% by Zhejiang Jiahua Group Co., Ltd., respectively. Zhejiang Jiahua Group Co., Ltd. is owned as to 68.82% by Hangzhou Haoming Investment Co., Ltd., which is in turn owned as to 75% by Mr. Guan Jianzhong. Ms. Han Jianhong is the spouse of Mr. Guan Jianzhong. Accordingly, each of Mr. Guan Jianzhong, Ms. Han Jianhong, Hangzhou Haoming Investment Co., Ltd. and Zhejiang Jiahua Group Co., Ltd. is deemed to be interested in such number of Shares held by Shanghai Guanzhao Investment Center (L.P) and Shanghai Chengpei Investment Centre (L.P.), respectively. Nonetheless, such interests had ceased in July 2021 upon the termination of the Locojoy Transaction (as defined below).

Save as disclosed above, as at 31 December 2020, the Directors are not aware of any other person or corporation who had interests or short positions in the Shares or underlying Shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO; or which would require to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended 31 December 2020 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 customer accounted for 26.83% of the Group's total revenue. The Group's five largest customers accounted for 61.57% of the Group's total revenue.

For the year ended 31 December 2020, the Group's largest supplier accounted for 22.26% of the Group's total purchase. The Group's five largest suppliers accounted for 50.10% 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) had any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

DIVIDEND POLICY

The Company has adopted a dividend policy which allows the Shareholders to share the profits of the Company whilst retaining adequate reserves for the Group's future growth. The declaration and amount of dividends shall be determined at the sole discretion of the Board. Pursuant to the dividend policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:

(a) the Company's actual and expected financial performance;

(b) dividends received from the Company's subsidiaries and associates;

(c) retained earnings and distributable reserves of the Company and its subsidiaries and associates;

(d) the liquidity position of the Group;

(e) the Group's expected working capital requirements;

(f) general business conditions and strategies;

(g) taxation considerations;

(h) possible effects on creditworthiness;

(i) legal, statutory and regulatory restrictions;

(j) contractual restrictions; and

(k) any other factors that the Board deem appropriate.

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 during the year ended 31 December 2020.

RETIREMENT BENEFITS SCHEME

The Group's employees in Hong Kong have all participated in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Details of the pension obligations of the Company are set out in note 2.11(a) to the consolidated financial statements in this annual report.

CONNECTED TRANSACTIONS

Save as the transactions contemplated under the Contractual Arrangements and the Locojoy Transaction (as defined below), during the year ended 31 December 2020, the Group had not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2020 are set out in note 35 to the consolidated financial statements contained herein.

None of the related party transactions constituted a connected transaction or continuing connected transaction subject to independent Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

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 year ended 31 December 2020.

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 CG 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 CG Code during the year ended 31 December 2020.

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

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 27 to 36 of this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2020 have been audited by Elite Partners CPA Limited, Certified Public Accountants, who are proposed for reappointment at the forthcoming AGM.

With effect from 10 April 2020, PricewaterhouseCoopers resigned as the auditor of the Company and Moore Stephens CPA Limited were appointed as the new auditor of the Company to fill the casual vacancy so arising. Further, with effect from 12 May 2021, Moore Stephens CPA Limited resigned as the auditor of the Company and the Company's current auditors, Elite Partners CPA Limited, were appointed as the new auditor of the Company to fill the casual vacancy so arising.

Save for the aforementioned, there has been no other change of auditors in the past three years.

SUBSEQUENT EVENTS

On 7 November 2020, the Company and certain vendors (collectively, the "**Vendors**"), each an independent third party, entered into a conditional sales and purchase agreement (the "**SPA**") in relation to the acquisition of the entire issued share capital of Locojoy HongKong International Limited for an aggregate consideration of RMB1,183,650,100 (the "**Locojoy Transaction**"), which would be satisfied by cash and the allotment and issuance of consideration shares subject to the terms of the SPA. On 28 February 2021, the Company and the Vendors entered into a supplemental agreement to the SPA, pursuant to which the long stop date was extended from 28 February 2021 to 31 March 2021. On or around 9 July 2021, the Company received a written notice from the Vendors to terminate the SPA and the consideration of RMB20 million paid by the Company to the Vendors pursuant to the SPA was returned to the Company. Accordingly, the SPA has been terminated as at the date of this report. Details of the SPA and its termination are set out in the announcements of the Company dated 9 November 2020, 11 November 2020, 30 November 2020, 30 December 2020, 1 March 2021 and 9 July 2021, respectively.

Save as disclosed above and under the sections headed "Management Discussion and Analysis" and "Material Legal Proceedings" of this annual report and the notes of the financial statements, the Company had no further subsequent events.

On behalf of the Board

Meng Shuqi
Chairman

Wuxi, the PRC, 31 August 2021

Independent Auditor's Report to the Shareholders of 7Road Holdings Limited
第七大道控股有限公司
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of 7Road Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 62 to 166, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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 matters identified in our audit are summarised as follows:

- **Revenue recognition — estimates of lifespan of in-game virtual items with reference to expected playing period of paying players (the "Player Relationship Period") in respect of online game revenue**

- **Impairment assessment of goodwill**

Key audit matter	How our audit addressed the key audit matter
Revenue recognition — estimates of lifespan of in-game virtual items with reference to the Player Relationship Period in respect of online game revenue *(Refer to Notes 2.6, 4(a) and 5 to the consolidated financial statements)*	
During the year ended 31 December 2020, the Group's revenue from online games amounted to approximately RMB278,461,000, representing 65.6% of the Group's total revenue. It was mainly derived from 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, while revenue derived from durable in-game virtual items is recognised ratably over the lifespan with reference to the Player Relationship Period (as defined in Note 2.6 to the consolidated financial statements), on a game by game basis. The determination of the Player Relationship Period for durable in-game virtual items requires significant judgments and estimates by the management. These judgments and estimates included (i) the determination of key assumptions applied in the estimation of Player Relationship Period, including but not limited to the observation of historical paying players' behaviour, login records, churn rates and games life-cycle; and (ii) the identification of events that may trigger changes in the Player Relationship Period. We focused on this area because of the significance of online game revenue and the significant judgments involved in the determination of the Player Relationship Period.	We understood, evaluated and validated the key controls in respect of the recognition of revenue from sale of in-game virtual items, including oversight exercised by the management in determining and re-assessing the Player Relationship Period on a regular basis and the computation of monthly revenue from sale of in-game virtual items. We discussed with the management and evaluated the appropriateness of their methodology, judgments and estimates made in determining and re-assessing the Player Relationship Period for each game by comparing with historical data and industry practice. We checked, on a sample basis, the accuracy and the integrity of the key data inputs, including the observation of the paying players' behaviour with reference to their log-in records, and calculation of churn rates used in determining the Player Relationship Period, extracted from the game servers. We also tested the information system logic for generation of such data. Based on the audit procedures performed, we found that the significant judgments and estimates involved in determining the Player Relationship Period adopted by the management were supportable.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill *(Refer to Notes 18 and 32 to the consolidated financial statements)*	
As at 31 December 2020, the Group had a balance of goodwill of approximately RMB693,065,000 (including goodwill of RMB667,034,000 arising from a business combination which took place during the year ended 31 December 2019, as disclosed in Note 32) in respect of the cash-generating units (the "CGUs") principally engaged in the development and distribution of web games and mobile games in the People's Republic of China, which are subject to impairment assessment at the end of each reporting period. The directors of the Company considered no impairment on goodwill is necessary as at 31 December 2020. Details of the impairment assessment of impairment are disclosed in Note 18 to the consolidated financial statements. Impairment of goodwill is assessed based on the value in use calculation by applying discounted cash flow model, which is highly judgmental and is dependent on certain significant inputs, including the discount rates, growth rates and expected changes to sales and direct costs. We focused on this area because of the significance of goodwill and the significant judgments involved in the assessment of the recoverable amount of the CGUs.	We understood and assessed the rationale of the management on the impairment assessment process, including the impairment model, CGUs allocation and preparation of the cash flow projections. We discussed with the management and evaluated the appropriateness of the impairment model and inputs applied in the impairment model, including the discount rates, growth rates and expected changes to sales and direct costs. We evaluated the reasonableness of the management's cash flow projections by comparing the actual results of those CGUs to the previously forecasted results. Based on the audit procedures performed, we found that the significant judgments and estimates involved in the impairment assessment of goodwill adopted by the management were supportable.

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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional 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, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Mr. Leung Man Kin, with Practising Certificate number P07174.

Elite Partners CPA Limited
Certified Public Accountants

10/F., 8 Observatory Road
Tsim Sha Tsui
Kowloon, Hong Kong
31 August 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 RMB'000	2019 RMB'000
Revenue	5	424,313	333,379
Cost of revenue	9	(110,835)	(40,248)
Gross profit		313,478	293,131
Research and development expenses	9	(107,570)	(112,407)
Selling and marketing expenses	9	(28,858)	(20,997)
Administrative expenses	9	(72,374)	(58,733)
Net reversal/(provision) of impairment losses on financial assets under expected credit loss model	6	5,791	(36,626)
Other income	7	15,771	21,394
Other losses, net	8	(68,059)	(77,562)
Operating profit		58,179	8,200
Finance income	12	804	813
Finance costs	12	(3,868)	(3,100)
Finance costs, net	12	(3,064)	(2,287)
Share of results of joint ventures	19	(3,216)	(784)
Profit before income tax		51,899	5,129
Income tax credit	13	28,102	8,776
Profit for the year		80,001	13,905
Profit/(loss) attributable to:			
— Owners of the Company		81,309	10,791
— Non-controlling interests		(1,308)	3,114
		80,001	13,905
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share):			
Basic and diluted	14	0.0333	0.0044

The notes on pages 70 to 166 are integral parts of these consolidated financial statements

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Profit for the year		80,001	13,905
Other comprehensive income:			
Item that will not be reclassified to profit or loss			
Fair value changes on financial assets at fair value through other comprehensive income, net of tax		1,563	(4,085)
Item that may be reclassified to profit or loss			
Currency translation differences of foreign operations		20,254	13,062
Other comprehensive income, net of tax		21,817	8,977
Total comprehensive income for the year		101,818	22,882
Total comprehensive income/(loss) attributable to:			
— Owners of the Company		103,126	19,768
— Non-controlling interests		(1,308)	3,114
		101,818	22,882

The notes on pages 70 to 166 are integral parts of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2020

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	4,019	17,630
Right-of-use assets	17	7,854	83,087
Intangible assets	18	958,450	856,188
Interests in joint ventures	19	—	3,216
Financial assets at fair value through other comprehensive income	20	2,357	794
Financial assets at fair value through profit or loss	21	208,044	2,357
Prepayment and other receivables	22	3,409	113,059
Restricted cash	24	1,946	1,935
Deferred income tax assets	30	57,071	18,741
		1,243,150	1,097,007
Current assets			
Trade receivables	23	290,503	229,673
Prepayment and other receivables	22	162,518	442,483
Income tax recoverable		327	17,317
Financial assets at fair value through profit or loss	21	40,539	111,469
Restricted cash	24	1	1
Cash and cash equivalents	24	377,306	44,011
		871,194	844,954
Total assets		2,114,344	1,941,961
LIABILITIES			
Current liabilities			
Trade and other payables	31	309,612	332,459
Lease liabilities	28	5,026	5,093
Bank and other borrowings	29	56,546	9,058
Current income tax liabilities		29,713	53,052
Contract liabilities	5	73,794	61,910
		474,691	461,572
Net current assets		396,503	383,382
Total assets less current liabilities		1,639,653	1,480,389

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
Non-current liabilities			
Other payables	31	92,291	273,750
Lease liabilities	28	3,312	7,895
Bank and other borrowings	29	—	35,296
Deferred income tax liabilities	30	32,153	48,614
		127,756	365,555
Net assets		1,511,897	1,114,834
EQUITY			
Share capital	25	90	86
Share premium	25	4,083,085	3,791,696
Other reserves	26	(2,952,776)	(2,977,334)
Retained earnings		383,123	301,814
Total equity attributable to owners of the Company		1,513,522	1,116,262
Non-controlling interests		(1,625)	(1,428)
Total equity		1,511,897	1,114,834

The consolidated financial statements on pages 62 to 166 were approved by the Board of Directors of the Company on 31 August 2021 and were signed on its behalf:

Meng Shuqi
Director

Li Zhengquan
Director

Yang Cheng
Director

The notes on pages 70 to 166 are integral parts of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Notes	Attributable to owners of the Company					Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
At 1 January 2020		86	3,791,696	(2,977,334)	301,814	1,116,262	(1,428)	1,114,834
Comprehensive income								
Profit/(loss) for the year		–	–	–	81,309	81,309	(1,308)	80,001
Other comprehensive income								
– Fair value changes on financial assets at fair value through other comprehensive income, net of tax		–	–	1,563	–	1,563	–	1,563
– Currency translation differences of foreign operations		–	–	20,254	–	20,254	–	20,254
Total comprehensive income/(loss)		–	–	21,817	81,309	103,126	(1,308)	101,818
Transactions with owners in their capacity as owners								
Issue of shares	25	4	291,620	–	–	291,624	–	291,624
Transaction costs attributable to issue of shares	25	–	(231)	–	–	(231)	–	(231)
Acquisition of a subsidiary		–	–	–	–	–	118	118
Disposal of a subsidiary		–	–	–	–	–	(7)	(7)
Capital contribution from non-controlling interests		–	–	–	–	–	1,000	1,000
Share-based compensation								
– Value of employee services	27	–	–	2,741	–	2,741	–	2,741
Total transactions with owners in their capacity as owners		4	291,389	2,741	–	294,134	1,111	295,245
At 31 December 2020		90	4,083,085	(2,952,776)	383,123	1,513,522	(1,625)	1,511,897

The notes on pages 70 to 166 are integral parts of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Notes	Attributable to owners of the Company						
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2018		88	3,854,742	(2,969,226)	291,524	1,177,128	—	1,177,128
Adjustment on adoption of IFRS 16		—	—	—	(499)	(499)	—	(499)
At 1 January 2019		88	3,854,742	(2,969,226)	291,025	1,176,629	—	1,176,629
Comprehensive income								
Profit for the year		—	—	—	10,791	10,791	3,114	13,905
Other comprehensive income								
— Fair value changes on financial assets at fair value through other comprehensive income, net of tax		—	—	(4,085)	—	(4,085)	—	(4,085)
— Currency translation differences of foreign operations		—	—	13,062	—	13,062	—	13,062
Total comprehensive income		—	—	8,977	10,791	19,768	3,114	22,882
Transactions with owners in their capacity as owners								
Repurchase and cancellation of shares	25	(2)	(63,046)	2	(2)	(63,048)	—	(63,048)
Acquisition of a subsidiary	32	—	—	—	—	—	(4,542)	(4,542)
Share-based compensation								
— Value of employee services	27	—	—	10,644	—	10,644	—	10,644
— Vested and settled	27	—	—	(27,731)	—	(27,731)	—	(27,731)
Total transactions with owners in their capacity as owners		(2)	(63,046)	(17,085)	(2)	(80,135)	(4,542)	(84,677)
At 31 December 2019		86	3,791,696	(2,977,334)	301,814	1,116,262	(1,428)	1,114,834

The notes on pages 70 to 166 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 RMB'000	2019 RMB'000
Operating activities			
Cash generated from operations	33	149,642	79,329
Interest received		804	813
Interest paid		(217)	—
Income tax (paid)/refunded, net		(46,945)	12,742
Cash settlement for vested Restricted Share Units ("RSUs")		—	(27,731)
Net cash generated from operating activities		103,284	65,153
Investing activities			
Payments for purchases of wealth management products		—	(166,964)
Proceeds from maturities of wealth management products		—	212,466
Refunds/(prepayment) for potential investments		60,000	(146,810)
Proceeds from disposals of investments		95,874	—
Refunds from mobile game cooperation contract		104,477	—
Refunds from terminated mobile game contract		106,387	—
Payments for a mobile game joint promotion contract		—	(88,843)
Payments for purchases of other financial assets at fair value through profit or loss		(97,590)	(51,240)
Proceeds from disposals of other financial assets at fair value through profit or loss		35,727	25,773
Capital injection to a joint venture		—	(4,000)
Loan to a joint venture		(2,000)	—
Payments for purchases of property, plant and equipment		(2,338)	(3,077)
Proceeds from disposals of property, plant and equipment and right-of-use assets		10,078	1,430
Payments for purchases of intangible assets		(141,509)	—
Net cash (outflow)/inflow from acquisition of subsidiaries	32	(3,819)	23,559
Net cash inflow from disposal of subsidiaries		1,972	—
Payments for contingent consideration payable for acquisition of a subsidiary		(230,324)	(52,072)
Repayments of loans granted to third parties		—	12,173
Net cash used in investing activities		(63,065)	(237,645)

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 RMB'000	2019 RMB'000
Financing activities			
Net proceeds from issuance of shares		291,624	—
Share issuance costs		(231)	(1,671)
Capital contribution from non-controlling interests		1,000	—
Repurchase of shares		—	(63,048)
New bank and other borrowings raised		30,000	2,920
Repayments of bank and other borrowings		(17,808)	(6,139)
Repayments of lease liabilities		(5,218)	(4,174)
Payments for interest portion of lease liabilities		(517)	(488)
Interest paid		(3,134)	(2,606)
Net cash generated from/(used in) financing activities		295,716	(75,206)
Net increase/(decrease) in cash and cash equivalents		335,935	(247,698)
Cash and cash equivalents at beginning of the year	24(a)	44,011	286,017
Effect of foreign exchange rate changes, net		(2,640)	5,692
Cash and cash equivalents at end of the year	24(a)	377,306	44,011

The notes on pages 70 to 166 are integral parts of these consolidated financial statements.

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

7Road Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 6 September 2017 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 Sertus Chambers, Governors Square, Suite #5–204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1–1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in the development and distribution of web games and mobile games in the People's Republic of China (the "**PRC**") and other countries and regions (the "**Business**").

These consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated, and have been approved for issue by the Board of Directors of the Company on 31 August 2021.

1.2 Reorganisation of the Group

Prior to the incorporation of the Company and completion of the Group's reorganisation on 1 March 2018 for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Reorganisation**"), the Group's Business was carried out through Shenzhen 7Road Technology Co., Ltd. (深圳第七大道科技有限公司) ("**Shenzhen 7Road**"), a limited liability company and its subsidiaries. Details of the Reorganisation have been disclosed in the Group's annual report for the year ended 31 December 2018.

Upon completion of the Reorganisation on 1 March 2018, the Company became the holding company of all the companies now comprising the Group.

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.

2.1 Basis of preparation

Immediately prior to and after the Reorganisation, the Group's Business was carried out by Shenzhen 7Road and its subsidiaries. Pursuant to the Reorganisation, the Group's Business are effectively controlled by Shenzhen Qianhai Huanjing Network Technology Co., Ltd. (深圳市前海幻境網絡科技有限公司) ("**Qianhai Huanjing**"), and ultimately controlled by the Company, through direct equity holding and the Contractual Arrangements (as defined in Note 2.4(a)(i)). The Company and those companies newly set up during the Reorganisation have not been involved in any other businesses prior to the Reorganisation and their operations do not meet the definition of a business. The Reorganisation is merely a reorganisation of the Group's Business and does not result in any changes in business substance, nor in any management of the Group's Business. Accordingly, the consolidated financial statements of the companies now comprising the Group is presented using the carrying value of the Group's Business for all periods presented.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and by the disclosure requirement of Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and contingent consideration payable for acquisition of a subsidiary, that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with IFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the consolidated 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 consolidated financial statements are disclosed in Note 4.

2.2 Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the "Amendments to References to the Conceptual Framework in IFRS Standards" and the following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendments to IFRS 16 "Covid-19-Related Rent Concessions".

Except as described below, the application of the "Amendments to References to the Conceptual Framework in IFRS Standards" and the amendments to IFRSs in the current year had no material impact on the Group's financial position and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Amendments to IFRSs that are mandatorily effective for the current year (continued)

(a) Impacts on application of Amendments to IAS 1 and IAS 8 "Definition of Material"

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

(b) Impacts on application of Amendments to IFRS 3 "Definition of a Business"

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred income tax assets, and goodwill resulting from the effects of deferred income tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Amendments to IFRSs that are mandatorily effective for the current year (continued)

(c) Impacts on early application of Amendments to IFRS 16 "Covid-19-Related Rent Concessions"

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- 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;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 "Leases" if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening retained earnings at 1 January 2020. The Group has benefited from two months waiver of lease payments on several leases in an office premise. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of RMB210,000, which has been recognised as variable lease payments in profit or loss for the current year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[3]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[4]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[4]
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use[3]
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2018–2020[3]

1 Effective for annual periods beginning on or after 1 June 2020.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after 1 January 2022.
4 Effective for annual periods beginning on or after 1 January 2023.
5 Effective for annual periods beginning on or after a date to be determined.

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

(a) Amendments to IFRS 3 "Reference to the Conceptual Framework"

The amendments:

- update a reference in IFRS 3 "Business Combinations" so that it refers to the Conceptual Framework for Financial Reporting issued by the IASB in March 2018 (the "**Conceptual Framework**") instead of the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in September 2010);

- add a requirement that, for transactions and other events within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or IFRIC 21 "Levies", an acquirer applies IAS 37 or IFRIC 21 instead of Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The Group will apply the amendments prospectively to business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and amendments to IFRSs in issue but not yet effective (continued)

(b) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform — Phase 2"

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform — Phase 2" relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying IFRS 7 "Financial Instruments: Disclosures" to accompany the amendments regarding modifications and hedge accounting.

- Modification of financial assets, financial liabilities and lease liabilities. A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRSs requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16;

- Hedge accounting requirements. Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- Disclosures. The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has bank loans carrying interest based on RMB Loan Prime Rate which will or may be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for this loan change resulting from the reform on application of the amendments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and amendments to IFRSs in issue but not yet effective (continued)

(c) Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from the end of the reporting period for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 "Financial Instruments: Presentation".

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

(d) Amendments to IAS 37 "Onerous Contracts — Cost of Fulfilling a Contract"

The amendments specify that, when an entity assesses whether a contract is onerous in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the unavoidable costs under the contract should reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Costs of fulfilling the contract include incremental costs and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments are applicable to contracts for which the Group has not yet fulfilled all its obligations as at the date of initial application. Specifically, the amendments are applicable to the Group's assessment of onerous contracts in relation to the online game distribution arrangement contracts signed between the Group and third-party game publishers.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and amendments to IFRSs in issue but not yet effective (continued)

(e) Amendments to IFRSs "Annual Improvements to IFRSs 2018–2020"

The annual improvements make amendments to the following standards.

(i) IFRS 9 "Financial Instruments"

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

(ii) IFRS "16 Leases"

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

(iii) IAS 41 "Agriculture"

The amendment ensures consistency with the requirements in IFRS 13 "Fair Value Measurement" by removing the requirement in paragraph 22 of IAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

2.4 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Subsidiaries (continued)

(a) Consolidation (continued)

(i) Subsidiaries controlled through contractual agreements

Pursuant to a series of contractual agreements, including Exclusive Business Cooperation Agreement, Exclusive Option Agreement, Share Pledge Agreement, and Powers of Attorney Agreement, dated 13 April 2018 (collectively, the "**Contractual Agreements**") among the wholly-owned subsidiary of the Company, Qianhai Huanjing, Shenzhen 7Road and its shareholders, which enable Qianhai Huanjing and the Group to:

- governing the financial and operating policies of Shenzhen 7Road;
- exercise shareholders' voting rights of Shenzhen 7Road;
- receive substantially all of the economic interest returns generated by Shenzhen 7Road in consideration for the business support, technical and consulting services provided by Qianhai Huanjing;
- obtain an irrevocable and exclusive right with an initial period of 10 years to purchase all or part of the equity interests in Shenzhen 7Road from the respective shareholders at a minimum purchase price permitted under the PRC laws and regulations, and the irrevocable and exclusive right shall be unconditionally and automatically extended thereafter until it is terminated by Qianhai Huanjing. Qianhai Huanjing may exercise such options at any time until it has acquired all equity interests of Shenzhen 7Road. The respective shareholders have also undertaken, subject to the relevant PRC laws and regulations, they will return to Qianhai Huanjing any consideration received in the event that Qianhai Huanjing exercises the option to acquire the equity interests of Shenzhen 7Road; and
- obtain a pledge over the entire equity interests of Shenzhen 7Road from its respective shareholders as collateral security for all of Shenzhen 7Road's payments due to Qianhai Huanjing and to secure performance of Shenzhen 7Road's obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the directors of the Company believe that the Group has rights to exercise power over Shenzhen 7Road and its subsidiaries, receive variable returns from its involvement with Shenzhen 7Road and its subsidiaries, has the ability to affect those returns through its power over Shenzhen 7Road and its subsidiaries and is considered to control Shenzhen 7Road and its subsidiaries. Consequently, the Company regards Shenzhen 7Road and its subsidiaries as the controlled entities and consolidated the financial position and results of operations of these entities in the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Subsidiaries (continued)

(a) Consolidation (continued)

(i) Subsidiaries controlled through contractual agreements (continued)

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Shenzhen 7Road and its subsidiaries and such uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Shenzhen 7Road and its subsidiaries. The directors of the Company, based on the advice of its external legal counsel, consider that the Contractual Arrangements among Qianhai Huanjing, Shenzhen 7Road and its shareholders are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

(ii) Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred income tax assets, and goodwill resulting from the effects of deferred income tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

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.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in September 2010).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Subsidiaries (continued)

(a) Consolidation (continued)

(ii) Business combinations and asset acquisitions (continued)

Business combinations (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, except that:

- deferred income tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

The Group recognises 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 recognised 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 IFRS.

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 recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Subsidiaries (continued)

(a) Consolidation (continued)

(ii) Business combinations and asset acquisitions (continued)

Business combinations (continued)

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

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 recognised 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 recognised directly in the statement of profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Subsidiaries (continued)

(a) Consolidation (continued)

(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 recognised in profit or loss. The fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income 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 recognised in other comprehensive income are reclassified to profit or loss.

(b) Investments in subsidiaries

Investments in subsidiaries disclosed in Note 38 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.

2.5 Associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Revenue recognition

The Group evaluated and recognised 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
- Recognise 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 recognised 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 web-based and mobile online game developer and also a publisher. The Group's online game revenue is generated primarily from its self-operated, i.e. game publishing by the Group, and licensed-out, i.e. game publishing by other publishers under various game distribution arrangements.

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 in-game virtual items.

(i) Revenue from online games (both self-developed games and licensed games) published by the Group

The Group sells in-game tokens to its game players via payment channels, such as various mobile carriers and third-party internet payment systems. The in-game tokens are non-refundable, non-cancellable, and can be exchanged for in-game virtual items. The payment channels are entitled to a handling fee which is withheld and deducted from the gross proceeds collected from the game players, with the net amounts remitted to the Group. The handling fee charged by payment channels are recognised as cost of revenue in the consolidated statement of profit or loss.

The Group is obligated to provide on-going services to the game players and such obligation is not deemed to be inconsequential after game players purchase in-game virtual items. Revenue is recognised when the Group satisfies its performance obligations, i.e. at a point in time for the consumable in-game virtual items upon consumed and over the estimated playing period of paying players (the "**Player Relationship Period**") for the durable in-game virtual items, given there is an implicit obligation of the Group to maintain and allow access of the players to the games operated by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Revenue recognition (continued)

(a) Online game revenue (continued)

(i) Revenue from online games (both self-developed games and licensed games) published by the Group (continued)

Estimation of the Player Relationship Period

The Group estimates the Player Relationship Period and re-assesses such periods at the end of each reporting period. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, the Group estimates the Player Relationship Period based on other similar types of games developed by the Group until the new game establishes its own pattern and history. The Group also considers game 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 in-game virtual items are applied prospectively.

(ii) Revenue from online games (both self-developed games and licensed games) published by other publishers under game distribution arrangements

The Group also grants its online games to third-party game publishers (the "**Publishers**") to publish its online games through the Publishers' platforms, including web-based and mobile game portals, or other distribution platforms, including major social networking websites (such as Facebook), online application stores installed in mobile (such as Apple Inc.'s App Store ("**Apple App**") and Google Play), web-based and mobile game portals.

Proceeds earned from selling in-game tokens are collected by the Publishers or its designated payment platforms and shared between the Group and the Publishers based on a pre-determined rate.

The Group is jointly obligated to provide on-going services to the game players

In certain arrangements, the Group is responsible for providing game products, technical supports and upgrades, while the Publishers are responsible for publishing (including determining the platforms), providing payment solutions, customer services, promotion activities and other daily game operations, and the right to determine the ultimate pricing of in-game virtual items are shared among the Group and the Publishers.

The Group recognises revenue that the Group is entitled to, i.e. on a net basis and under the same principles as stated in (i) above as the Group is jointly obligated to provide on-going services to the game players.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Revenue recognition (continued)

(a) Online game revenue (continued)

(ii) Revenue from online games (both self-developed games and licensed games) published by other publishers under game distribution arrangements (continued)

The Group is obligated to the Publishers to operate the licensed-out games

In certain arrangements, the Group grants its online games to the Publishers and the Publishers pay license fees for the exclusive right to operate the Group's games in specified geographic areas. The license fees normally comprise of a fixed license fees (either up-front or under specific payment schedule) and variable fees calculated based on a predetermined rate on the cash paid by game players collected by the Publishers in relation to the licensed-out games. The Group views the Publishers as its customers as the Group does not have the primary responsibility for fulfilment and acceptability of the game services.

Under these arrangements, apart from providing game license and initial game content, the Group is also obligated to provide post-sale services to the Publishers, including when-and-if-available technical supports and upgrades. Normally, no activity that significantly affect the game license is undertaken by the Group. The performance obligations of the Group in these arrangements comprise of the transfer of control of game license and post-sale services. The fixed license fees are allocated between the game license and post-sale services based on relative fair values of the standalone performance obligations. The amount allocated to the game license is recognised as revenue at a point in time when the license is granted, given that it is considered to be a right to use arrangement, and the amount allocated to post-sale services is recognised as revenue ratably over the license period.

The variable license fees which are contingent upon future events (future cash paid by game players collected by the Publishers in relation to the licensed game) are recognised when the contingency is met provided that collectability is reasonably assured.

(b) Sales of customisation game software

The Group is entrusted to provide customisation game software to third parties. Revenue is recognised at a point in time when the services are rendered to third parties.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Revenue recognition (continued)

(c) Sales of game copyrights

Revenue from sale of game copyrights is recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the game software master copy and completion of the registration change of the game copyright.

(d) Sales of online game technology and publishing solution services

The Group provides technology development services, games installation services, software copyright and publishing solution services to third parties. Revenue is recognised at a point in time when the services are rendered to third parties.

(e) Intellectual property licensing

The Group also generates revenue from licensing its copyrights to other online game companies for agreed periods. The license fees normally comprise of a fixed license fees (either up-front or under specific payment schedule) and variable fees calculated based on predetermined terms. Normally the Group do not have any substantive post-sale services to the licensee.

Revenue from licensing agreements is recognised at a point in time when the license is granted, given that it is considered to be a right to use arrangement. The variable license fees which are contingent upon future events (future cash paid by game players collected by the Publishers in relation to the licensed game) are recognised when the contingency is met provided that collectability is reasonably assured.

(f) Contract liabilities

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 sharing received in advance from customers, unamortised revenue from sale of in-game virtual items and the up-front license fees paid by the licensees, where there are implied obligations to be provided by the Group in the future. The amounts will be recognised as revenue when all of the revenue recognition criteria are met.

2.7 Leases

(a) Definition of a lease

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

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Leases (continued)

(b) The Group as a lessee

(i) Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

(ii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(iii) Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities, other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Leases (continued)

(b) The Group as a lessee (continued)

(iv) Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

(v) Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, 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 the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment; and

the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Leases (continued)

(b) The Group as a lessee (continued)

(vi) Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(vii) Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- 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;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 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 function currency of the Company is Hong Kong Dollar ("**HK$**"). The functional currencies of the Company's PRC subsidiaries are RMB, while the functional currencies of the Company's overseas subsidiaries are United States Dollar ("**US$**") or other appropriate currencies. As major operations of the Group are located in the PRC, the directors of the Company determined to present the Group's consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other losses, 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 financial assets at fair value through other comprehensive income are recognised in other comprehensive income.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this 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 dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. 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 recognised in profit or loss in the period in which they are incurred.

2.10 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

2.11 Employee benefits

(a) Pension and social obligations

The Group operates various defined contribution plans in accordance with the local conditions and practices in which it operates. Defined contribution plans are pensions and the other social benefit plans under which the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as labour costs when they are due.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised 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 end of each reporting period.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Employee benefits (continued)

(c) Bonus plans

The expected cost of bonuses is recognised 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.

2.12 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based compensation reserve.

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to retained earnings. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will continue to be held in share-based compensation reserve.

When shares granted are vested, the amount previously recognised in share-based compensation reserve will be transferred to share capital.

2.13 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income 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 end of each reporting period 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Current and deferred income tax (continued)

(b) Deferred income tax

(i) Inside basis differences

Deferred income tax is recognised, 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 income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is 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.

For the purpose of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(ii) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred income tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Current and deferred income tax (continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied to the same taxable entity by the same taxation authority.

2.14 Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Intangible assets

(a) Goodwill

Goodwill arising from an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("**CGUs**") (or group of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising from an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the CGU (or group of CGUs).

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

(b) Intangible assets other than goodwill

(i) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Intangible assets (continued)

(b) Intangible assets other than goodwill (continued)

(ii) Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

(iii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair values at the acquisition date (which is regarded as their costs).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Intangible assets (continued)

(b) Intangible assets other than goodwill (continued)

(iii) Intangible assets acquired in a business combination (continued)

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.16 Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (continued)

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.17 Provisions

Provisions are recognised 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 recognised 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 recognised 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 recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(a) Financial assets

(i) Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Financial instruments (continued)

(a) Financial assets (continued)

(i) Classification and subsequent measurement of financial assets (continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 "Business Combinations" applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or fair value through other comprehensive income as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Financial instruments (continued)

(a) Financial assets (continued)

(i) Classification and subsequent measurement of financial assets (continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Equity instruments designated as at fair value through other comprehensive income

Investments in equity instruments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value through other comprehensive income reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the fair value through other comprehensive income reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income or designated as fair value through other comprehensive income are measured at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

(ii) Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade receivables, other receivables, restricted cash and cash and cash equivalents) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at the end of each reporting period to reflect changes in credit risk since initial recognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment of financial assets (continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the end of the reporting period. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the end of the reporting period as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment of financial assets (continued)

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables, where the corresponding adjustment is recognised through a loss allowance account.

(iii) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the fair value through other comprehensive income reserve is not reclassified to profit or loss, and continue to be held in the fair value through other comprehensive income reserve.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.18 Financial instruments (continued)

(b) Financial liabilities and equity

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Perpetual instruments, which include no contractual obligation for the Group to deliver cash or other financial assets or the Group has the sole discretion to defer payment of distribution and redemption of principal amount indefinitely are classified as equity instruments.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

(iii) Financial liabilities at amortised cost

Financial liabilities (including trade payables, other payables and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

(iv) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(c) Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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 minimise 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 arose from recognised assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. The Group did not hedge against any fluctuation in foreign currency during the years ended 31 December 2020 and 2019.

For the Company's PRC subsidiaries whose functional currency is RMB, if US$ had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax profit would have been approximately RMB9,261,000 (2019: RMB2,492,000) higher/lower for the year ended 31 December 2020, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US$.

(ii) Price risk

The Group is exposed to price risk in respect of investments held by the Group that are classified on the consolidated statement of financial position either as at fair value through other comprehensive income or 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. Each investment is managed by senior management on a case by case basis.

The Group's financial assets at fair value through other comprehensive income are held for capital appreciation and business strategic purposes. The sensitivity analysis is determined based on the exposure to equity price risks of financial assets at fair value through other comprehensive income at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% higher/lower, the other comprehensive income for the year ended 31 December 2020 would have been approximately RMB100,000 (2019: RMB34,000) higher/lower.

In respect of the Group's financial assets at fair value through profit or loss, 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 value of the respective instruments held by the Group had been 5% higher/lower, the post-tax profit for the year ended 31 December 2020 would have been approximately RMB10,868,000 (2019: RMB5,671,000) higher/lower.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk

The Group is exposed to cash flow interest rate risk in respect of its variable-rate bank borrowings.

The Group analyses its interest rate exposure on a regular basis to consider the options available for refinancing, renewal of existing positions, and alternative financing.

If the interest rate had increased/decreased by 100 basis points with all other variables held constant, post-tax profit for the year ended 31 December 2020 would have been approximately RMB40,000 (2019: RMB311,000) lower/higher, as a result of the increase/decrease in interest expense on variable-rate bank borrowings.

(b) Credit risk

The Group is exposed to credit risk in respect of its trade receivables, other receivables, restricted cash and cash and cash equivalents placed with banks. 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.

Restricted cash and cash and cash equivalents are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions in the overseas. There was no recent history of default in relation to these financial institutions. In the opinion of the directors or the Company, the expected credit loss is close to zero.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets

The Group has mainly two classes of financial assets that are subject to the expected credit loss model: trade receivables and other 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 the days past due.

Other receivables are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. The company considers the probability of default upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;
- actual or expected significant changes in the operating results of the counterparty;
- significant changes in the expected performance and behavior of the counterparty,

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 90 days past due in making a contractual payment/repayable demanded.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2020, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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

As at 31 December 2020

Receivables	Expected credit loss	Basis for recognition of expected credit loss provision	Estimated gross amount at default RMB'000	Carrying amount (net of impairment provision) RMB'000
Trade receivables	2.1%	Life time expected credit losses	296,599	290,503
Other receivables				
— Loans to third parties	27.1%	12 months expected credit losses	6,620	4,825
— Loan to a joint venture	0.2%	12 months expected credit losses	2,000	1,996
— Loan to a related party	24.8%	12 months expected credit losses	2,581	1,940
— Receivable from disposal of property, plant and equipment and right-of-use assets	0%	12 months expected credit losses	80,000	80,000
— Others	16.5%	12 months expected credit losses	33,287	27,834

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

As at 31 December 2019

Receivables	Expected credit loss	Basis for recognition of expected credit loss provision	Estimated gross amount at default RMB'000	Carrying amount (net of impairment provision) RMB'000
Trade receivables	9.6%	Life time expected credit losses	253,977	229,673
Other receivables				
— Loans to third parties	10.5%	12 months expected credit losses	6,616	5,924
— Loan to a related party	1.9%	12 months expected credit losses	2,747	2,695
— Receivable from disposals of investments	3.4%	12 months expected credit losses	93,140	89,949
— Receivable from mobile game cooperation contract	3.4%	12 months expected credit losses	104,477	100,878
— Receivable from refund for terminated mobile game contract	3.4%	12 months expected credit losses	106,387	102,759
— Others	10.1%	12 months expected credit losses	13,151	11,825

Apart from the above expected credit losses, certain balances included in trade receivables and other receivables, amounted to RMB33,290,000 (2019: RMB22,829,000) were credit-impaired, due to the financial difficulties of the respective counterparties identified by the Group.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Movement of provision for impairment of trade receivables for the year is as follows:

	2020 RMB'000	2019 RMB'000
At beginning of the year	24,304	3,465
Acquisition of a subsidiary	—	4,097
Disposal of a subsidiary	(2,527)	—
(Decrease)/increase in loss allowance recognised in profit or loss	(4,595)	17,142
Receivables written off as uncollectible	(263)	(400)
Exchange realignment	(403)	—
At end of the year	16,516	24,304

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 in the statement of profit or loss on a net basis within net reversal/(provision) of impairment losses on financial assets under expected credit loss model. Subsequent recoveries of amounts previously written off are credited against the same line item.

(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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's non-derivative financial liabilities and lease liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Weighted average interest rate %	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 RMB'000	Carrying amount RMB'000
As at 31 December 2020							
Bank and other borrowings (Note 29)	5.41%	56,663	–	–	–	56,663	56,546
Trade and other payables (excluding payroll liabilities, other tax payables, government grants and contingent consideration payable for acquisition of a subsidiary) (Note 31)	–	61,236	–	–	–	61,236	61,236
Contingent consideration payable for acquisition of a subsidiary (Notes 31 and 32)	5.44%	200,000	99,500	–	–	299,500	288,000
Lease liabilities (Note 28)	4.75%	5,300	3,357	12	–	8,669	8,338
		323,199	102,857	12	–	426,068	414,120
As at 31 December 2019							
Bank and other borrowings (Note 29)	4.60%	11,093	7,954	21,861	11,380	52,288	44,354
Trade and other payables (excluding payroll liabilities, other tax payables, government grants and contingent consideration payable for acquisition of a subsidiary) (Note 31)	–	54,865	–	–	–	54,865	54,865
Contingent consideration payable for acquisition of a subsidiary (Notes 31 and 32)	5.39%	230,324	200,000	100,000	–	530,324	497,709
Lease liabilities (Note 28)	4.75%	5,732	7,855	396	–	13,983	12,988
		302,014	215,809	122,257	11,380	651,460	609,916

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings and lease liabilities disclosed in notes 29 and 28 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management reviews the capital structure periodically. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

3.3 Fair value estimation

The table below analyses 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.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2020				
Financial assets at fair value through other comprehensive income (Note 20)	**–**	**–**	**2,357**	**2,357**
Financial assets at fair value through profit or loss (Note 21)	**40,539**	**–**	**208,044**	**248,583**
	40,539	**–**	**210,401**	**250,940**
Contingent consideration payable for acquisition of a subsidiary (Notes 31 and 32)	**–**	**–**	**(288,000)**	**(288,000)**
As at 31 December 2019				
Financial assets at fair value through other comprehensive income (Note 20)	–	–	794	794
Financial assets at fair value through profit or loss (Note 21)	111,469	–	2,357	113,826
	111,469	–	3,151	114,620
Contingent consideration payable for acquisition of a subsidiary (Notes 31 and 32)	–	–	(497,709)	(497,709)

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These financial instruments are categorised within level 1. The Group's level 1 financial instruments comprise of investments in equity securities listed in Hong Kong.

The fair value of financial instruments that is not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the financial instrument is categorised within level 2. The Group did not have any level 2 financial instruments as at 31 December 2020 and 2019.

If one or more of the significant inputs is not based on observable market data, the financial instrument is categorised within level 3.

Specific valuation techniques used to value financial instruments include:

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

There was no transfer between levels 1, 2 and 3 during the year.

Movements of level 3 financial instruments in respect of financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and contingent consideration payable for acquisition of a subsidiary for the year have been disclosed in Notes 20, 21 and 31, respectively.

The Group's level 3 financial instruments comprise of investments in unlisted equity securities and contingent consideration payable for acquisition of a subsidiary. As these financial instruments are not traded in an active market, their fair values have been determined using various applicable methodologies, as disclosed below.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

At 31 December 2020

	Amount RMB'000	Valuation technique	Significant unobservable inputs	Percentage or ratio range	Sensitivity of fair value to the input
Unlisted equity securities	207,420	Recent market transaction	(a) N/A	N/A	N/A
Unlisted equity securities	2,981	Market approach	(a) Earnings multiples of comparable companies		
			i.) Enterprise value to sales	4.89	Note a
			ii.) Enterprise value to earnings before interest taxes, depreciation and amortisation	25.85	Note a
			(b) Discount for lack of marketability	15.80%	Note a
Contingent consideration payable for acquisition of a subsidiary	(288,000)	Discounted cash flow model	(a) Discount rate	5.44%	Note a

At 31 December 2019

	Amount RMB'000	Valuation technique	Significant unobservable inputs	Percentage or ratio range	Sensitivity of fair value to the input
Unlisted equity securities	3,151	Market approach	(a) Earnings multiples of comparable companies (i.e. Enterprise value to sales)	4.41	Note b
			(b) Discount for lack of marketability	15.80%	Note b
Contingent consideration payable for acquisition of a subsidiary	(497,709)	Discounted cash flow model	(a) Discount rate	5.39%	Note b

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Notes:

(a) The following table summarises the quantitative information in respect of the significant unobservable inputs used in level 3 fair value measurements as at 31 December 2020.

Key unobservable inputs	Range of inputs	Change	Fair value change for the year ended 31 December 2020
Earnings multiples of comparable companies			
i.) Enterprise value to sales	4.89	+5%	693
	4.89	–5%	(693)
ii.) Enterprise value to earnings before interest, taxes, depreciation and amortisation	25.85	+5%	576
	25.85	–5%	(576)
Discount for lack of marketability	15.80%	+5%	(275)
	15.80%	–5%	275
Discount rate	5.44%	+1%	2,000
	5.44%	–1%	(2,000)

(b) The following table summarises the quantitative information in respect of the significant unobservable inputs used in level 3 fair value measurements as at 31 December 2019.

Key unobservable inputs	Range of inputs	Change	Fair value change for the year ended 31 December 2019
Earnings multiples of comparable companies (i.e. Enterprise value to sales)	4.41	+5%	156
	4.41	–5%	(156)
Discount for lack of marketability	15.80%	+5%	(30)
	15.80%	–5%	30
Discount rate	5.39%	+1%	5,580
	5.39%	–1%	(5,720)

As at 31 December 2020 and 31 December 2019, the carrying amounts of the Group's financial assets, including trade receivables, other receivables and cash and bank balances; and the Company's financial liabilities, including trade and other payables and bank and other borrowings approximate their fair values.

4 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Judgments and estimates 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 assumptions and estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The assumptions and estimates 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 respect of online game revenue

As described in Note 2.6, the Group recognises certain revenue from sale of durable in-game virtual items in online games ratably over the Player Relationship Period. The determination of the Player Relationship Period for durable in-game virtual items requires significant judgments and estimates by the management. These judgments and estimates included (i) the determination of key assumptions applied in the estimation of Player Relationship Period, including but not limited to the observation of historical paying players' behaviour, log-in records, churn rates and games life-cycle; and (ii) the identification of events that may trigger changes in the Player Relationship Period. Such estimates are subject to re-evaluation at the end of each reporting period. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as changes in accounting estimates.

(b) Impairment assessment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs with certain significant inputs, including growth rates and expected changes to sales and direct costs, and a suitable discount rate in order to calculate the present value of future cash flows. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2020, the carrying amount of goodwill is RMB693,065,000 (2019: RMB693,065,000). Details of the impairment assessment of goodwill are disclosed in Note 18.

(c) Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables are assessed based on assumptions and estimates in respect of the expected credit loss rates. In determining the expected credit loss rates, the Group takes into consideration the Group's historical data, existing market conditions as well as forward looking information at the end of each reporting period. Changes in these assumptions and estimates could materially affect the result of the impairment assessment. Details of the impairment of trade receivables and other receivables are disclosed in Notes 3.1(b), 22 and 23.

(d) Fair value measurement of level 3 financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These valuation techniques include the use of market approach, discounted cash flow model and other valuation techniques commonly used by market participants, which require selection of significant unobservable inputs in the valuation process, including but not limited to earnings multiple of comparable companies, discount for lack of marketability and discount rate etc. Changes in these assumptions and estimates could materially affect the fair values of financial instruments.

4 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

(e) Control over Shenzhen 7Road and its subsidiaries under the Contractual Arrangements

As described in Note 2.4(a)(i), Shenzhen 7Road and its subsidiaries are treated as controlled structured entities of Qianhai Huanjing and are ultimately controlled and consolidated by the Company by way of the Contractual Arrangements. The management of the Group, with the support of legal opinion, are of the opinion that the Contractual Arrangements are in compliance with the PRC laws and regulations and are legally enforceable, and that the Group has power over Shenzhen 7Road's relevant activities and is exposed to significant variable return of Shenzhen 7Road. Changes in these assumptions could have material impact on the consolidated financial statements of the Group.

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 managed as a single segment and no segment information is presented, accordingly.

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

The Group's revenue for the years ended 31 December 2020 and 2019 are as follows:

	2020 RMB'000	2019 RMB'000
Types of goods or services		
Online game revenue		
— Self-development games		
published by the Group	24,369	5,797
published by other publishers	240,210	262,351
— Licensed games		
published by the Group	7,904	565
published by other publishers	5,978	17,106
	278,461	285,819
Sales of customisation game software	8,585	13,302
Sales of game copyrights	35,000	22,453
Sales of online game technology and publishing solutions services	45,333	1,382
Intellectual property licensing	56,934	10,423
	424,313	333,379
Timing of revenue recognition		
— At a point in time	152,929	103,906
— Over time	271,384	229,473
	424,313	333,379

5 SEGMENT INFORMATION AND REVENUE (continued)

Revenue of approximately RMB261,260,000 (2019: RMB155,948,000) was derived from five largest single external customers during the year ended 31 December 2020.

Revenue of approximately RMB164,270,000 (2019: RMB78,805,000) was derived from two (2019: two) largest single external customers, which accounted for more than 10% of total revenue of the Group, during the year ended 31 December 2020.

The Group's contract liabilities in respect of its contracts with customers as at 31 December 2020 and 2019 are as follows:

	2020 RMB'000	2019 RMB'000
Current		
Advance from customers	66,923	44,556
Game copyrights	—	418
Game revenue derived from game players	6,871	16,936
	73,794	61,910

Contract liabilities primarily represent the unamortised revenue derived from sale of in-game virtual items and advance payments from third-party game publishers, to which the Group continued to have obligations at the end of the reporting period.

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

	2020 RMB'000	2019 RMB'000
Revenue recognised during the year that was included in contract liabilities balance at the beginning of the year		
Advance from customers	44,556	33,790
Game copyrights	418	15,914
Game revenue derived from game players	16,936	9,790
	61,910	59,494

The contract liabilities as at 31 December 2020 is expected to be recognised as revenue within 1 year (2019: 1 year).

6 NET REVERSAL/(PROVISION) OF IMPAIRMENT LOSSES ON FINANCIAL ASSETS UNDER EXPECTED CREDIT LOSS MODEL

	2020 RMB'000	2019 RMB'000
Impairment losses reversed/(recognised) on:		
— Trade receivables	4,595	(17,142)
— Other receivables	1,196	(19,484)
	5,791	(36,626)

7 OTHER INCOME

	2020 RMB'000	2019 RMB'000
Government grants (Note a)	4,263	2,874
Refunds of the PRC value-added tax	3,580	5,911
Investment income	2,800	—
Compensation income (Note 22(h))	1,772	8,893
Interest income on receivable from disposals of investments (Note 22(f))	2,735	2,279
Rent concession income	210	—
Others	411	1,437
	15,771	21,394

Note:

(a) There is no unfulfilled condition or contingency in respect of the government grants.

8 OTHER LOSSES, NET

	2020 RMB'000	2019 RMB'000
Fair value change on financial assets at fair value through profit or loss (Note 21)	(23,791)	(67,992)
Fair value change on contingent consideration payable for acquisition of a subsidiary (Note 32)	(46,397)	(12,652)
Gains/(losses) on disposals of property, plant and equipment and right-of-use assets	66	(149)
Foreign exchange gains, net	467	821
Others	1,596	2,410
	(68,059)	(77,562)

9 EXPENSES BY NATURE

	2020 RMB'000	2019 RMB'000
Employee benefit expenses (Note 10)	114,399	83,266
Share-based compensation (Notes 10 and 27)	2,741	10,644
Promotion and advertising expenses	28,770	29,067
Utilities and office expenses	4,276	3,592
Outsourced technical service fees	37,579	29,788
Bandwidth and server custody fees	4,337	6,269
Travelling and entertainment expenses	6,242	2,580
Other professional consulting fees	21,743	18,054
Depreciation of property, plant and equipment (Note 16)	2,643	3,132
Depreciation of right-of-use assets (Note 17)	6,834	5,498
Amortisation of intangible assets (Note 18)	68,917	16,590
Short-term lease expenses	667	2,305
Auditors' remuneration		
— Audit services (Note)	10,200	13,384
— Audit-related services	—	776
Tax and levies	2,925	2,161
Others	7,364	5,279
	319,637	232,385

Note: In 2020, audit services under auditors' remuneration amounted to RMB10,200,000, which included Elite Partners CPA Limited's annual audit fee of RMB3,500,000 and Moore Stephens CPA Limited's audit and audit-related services fee (including annual audit, interim review, audit of major transaction and advisory for tax and compliance services) of RMB6,700,000.

10 EMPLOYEE BENEFIT EXPENSES

	2020 RMB'000	2019 RMB'000
Wages, salaries and bonuses	101,585	67,430
Social insurances, housing provident funds and other employee benefits	11,832	9,486
Pension costs — defined contribution plans	982	6,350
Share-based compensation (Note 27)	2,741	10,644
	117,140	93,910

10 EMPLOYEE BENEFIT EXPENSES (continued)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2020 include two (2019: one) director whose remuneration are set out in Note 11 below. Details of the remuneration of the remaining three (2019: four) highest paid individuals who are not a director of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Wages, salaries and bonuses	4,361	2,787
Social insurances, housing provident funds and other employee benefits	212	182
Pension costs — defined contribution plans	15	177
Share-based compensation	—	6,319
	4,588	9,465

(b) The emoluments fell within the following band:

The number of the highest paid individuals who are not a director of the Company whose remuneration fell within different bands is as follows:

	Number of individuals 2020	2019
HK$1 to HK$500,000	—	—
HK$500,001 to HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	2	2
HK$2,000,001 to HK$2,500,000	—	1
HK$2,500,001 to HK$3,000,000	—	—
HK$3,000,001 to HK$3,500,000	1	—
HK$3,500,001 to HK$4,000,000	—	1
	3	4

11 DIRECTORS' EMOLUMENTS AND INTERESTS OF DIRECTORS

The directors' remuneration for the years ended 31 December 2020 and 2019, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

	Fees RMB'000	Salaries RMB'000	Social insurances, housing provident funds and other employee benefits RMB'000	Pension costs – defined contribution cost RMB'000	Share-based compensation RMB'000	Total RMB'000
For the year ended 31 December 2020						
Executive directors						
Meng Shuqi (Note a)	–	657	15	30	–	702
Li Zhengquan (Note b)	–	1,025	78	–	–	1,103
Yang Cheng (Note b)	–	1,193	41	15	–	1,249
Non-executive directors						
Li Shimeng (Note c)	–	–	–	–	–	–
Yan Kaidan (Note c)	–	–	–	–	–	–
Independent non-executive directors						
Xue Jun	252	–	–	–	–	252
Li Yiqing (Note d)	168	–	–	–	–	168
Wang Ying (Note d)	168	–	–	–	–	168
Total	588	2,875	134	45	–	3,642
For the year ended 31 December 2019						
Executive directors						
Meng Shuqi (Note a)	–	595	13	40	–	648
Li Zhengquan (Note b)	–	779	35	23	–	837
Yang Cheng (Note b)	–	1,195	34	32	–	1,261
Hu Min (Note e)	–	300	32	35	–	367
Non-executive directors						
Li Shimeng (Note c)	141	–	–	–	–	141
Yan Kaidan (Note c)	141	–	–	–	–	141
Independent non-executive directors						
Xue Jun	277	–	–	–	–	277
Li Yiqing (Note d)	44	–	–	–	–	44
Wang Ying (Note d)	72	–	–	–	–	72
Liu Yunli (Note f)	198	–	–	–	–	198
Wu Xiaoguang (Note f)	156	–	–	–	–	156
Total	1,029	2,869	114	130	–	4,142

11 DIRECTORS' EMOLUMENTS AND INTERESTS OF DIRECTORS (continued)

Notes:

(a) Mr. Meng Shuqi resigned as the Company's chief executive on 1 September 2019 and remained as the Company's chairman and executive director.

(b) Mr. Li Zhengquan and were appointed as the Company's executive directors on 30 April 2019, Mr. Yang Cheng were appointed as the Company's executive directors on 29 October 2018.

(c) Mr. Li Shimeng and Mr. Yan Kaidan resigned as the Company's non-executive directors on 2 March 2020.

(d) Ms. Li Yiqing and Ms. Wang Ying were appointed as the independent non-executive directors on 30 September 2019 and 2 August 2019, respectively.

(e) Mr. Hu Min resigned as the Company's executive director on 30 April 2019 but remained as an employee of the Group.

(f) Mr. Liu Yunli and Mr. Wu Xiaoguang resigned as the Company's independent non-executive directors on 30 September 2019 and 2 August 2019, respectively.

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the companies comprising the Group.

No director waived any emolument during the years ended 31 December 2020 and 2019.

No emolument was paid by the Company or the companies comprising the Group as an inducement to join the Company or the companies comprising the Group, or as compensation for loss of office during the year ended 31 December 2020 and 2019.

(a) Director's retirement benefits and termination benefits

None of the directors received any retirement benefits or termination benefits during the years ended 31 December 2020 and 2019.

(b) Consideration provided to third parties for making available director's services

The Company did not pay consideration to any third parties for making available directors' services during the years ended 31 December 2020 and 2019.

(c) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporates by and controlled entities with such directors

Save as disclosed in Note 35(c), there is no loan, quasi-loan and other dealing arrangement in favour of directors, or controlled body corporates and connected entities of such directors during the years ended 31 December 2020 and 2019.

(d) Directors' material interest in transactions, arrangements or contracts

There is no significant transaction, arrangement and contract 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 years ended 31 December 2020 and 2019.

12 FINANCE COSTS, NET

	2020 RMB'000	2019 RMB'000
Finance income		
Interest income on bank balances	341	810
Others	463	3
	804	813
Finance costs		
Interest expenses on bank and other borrowings	(3,134)	(2,606)
Interest expenses on lease liabilities	(517)	(488)
Others	(217)	(6)
	(3,868)	(3,100)
Finance costs, net	(3,064)	(2,287)

13 INCOME TAX CREDIT

The Group's income tax credit for year is analysed as follows:

	2020 RMB'000	2019 RMB'000
Current income tax		
— Income tax for the current year	(8,214)	(7,234)
— (Under)/over-provision in prior years	(18,767)	6,271
	(26,981)	(963)
Deferred income tax (Note 30)	55,083	9,739
Income tax credit	28,102	8,776

13 INCOME TAX CREDIT (continued)

(a) The Cayman Islands and The British Virgin Islands (the "BVI") Income Tax

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

(b) Hong Kong Profits Tax

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

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

In respect of the Company's PRC subsidiaries, the PRC EIT was provided for at a tax rate of 25% (2019: 25%) on the estimated assessable profits, except for:

(i) Shenzhen 7Road qualified as a High and New Technology Enterprise for a three-year period under the relevant PRC tax laws and regulations on 31 October 2017. As a result, Shenzhen 7Road was entitled to a preferential income tax rate of 15% for the years ended 31 December 2020 and 2019.

(ii) Qianhai Huanjing qualified as a Key Software Enterprise under the relevant PRC tax laws and regulations, which entitles Qianhai Huanjing a preferential income tax rate of 10% for the year ended 31 December 2018. Qianhai Huanjing then qualified as a Software Enterprise under the relevant PRC tax laws and regulations in 2019. Pursuant to the relevant PRC tax laws and regulations, a company qualified as a Software Enterprise is entitled to a two-year EIT exemption period, followed by a three-year period with 50% reduction in the applicable income tax rate (i.e. 12.5%). The preferential tax period commences either from the first year of commercial operations or from the first year of profitable operations after offsetting tax losses carried forward from prior years. Accordingly, Qianhai Huanjing was entitled to a two-year EIT exemption period for the two years ended 31 December 2018 and 2019, and a three-year period with 50% reduction in the applicable income tax rate (i.e. 12.5%) commencing in the year ended 31 December 2020. As the PRC EIT of Qianhai Huanjing for the year ended 31 December 2018 was previously provided and paid at the Key Software Enterprise preferential income tax rate of 10%, and Qianhai Huanjing was subsequently qualified as a Software Enterprise, which entitled Qianhai Huanjing to an exemption of the PRC EIT for the year ended 31 December 2018, an overprovision of the PRC EIT in prior year amounted to RMB5,766,000 was made during the year ended 31 December 2019. The aforesaid amount was refunded by the tax bureau during the year ended 31 December 2019.

13 INCOME TAX CREDIT (continued)

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

(iii) For the year ended 31 December 2019, management considered Shanghai Xinla Networks Technology Co., Ltd. (上海辛辣網絡科技有限公司) ("Shanghai Xinla") qualified as a Software Enterprise (as described in Note ii above) under the relevant PRC tax laws and regulations. As a result, Shanghai Xinla was assessed that it was entitled to the two-year EIT exemption period for the two-years ended 31 December 2018, 2019 and three years 50% reduction for the year ended 31 December 2020, 2021 and 2022. Accordingly, the PRC EIT of Shanghai Xinla for the year ended 31 December 2019 was previously provided at the Key Software Enterprise preferential income tax rate of 12.5%. During the year ended 31 December 2020, management received notices from the tax authority that Shanghai Xinla was not qualified the preferential tax treatment for the year ended 31 December 2019. As such, an underprovision of the PRC EIT in prior year amount to RMB18,945,000 was charged to profit or loss during the year. The aforesaid shortfall was paid to the tax bureau in the year 2021.

(iv) Hangzhou Shengfeng Network Technology Co., Ltd. (杭州盛鋒網絡科技有限公司) ("Hangzhou Shengfeng") qualified as a Software Enterprise (as described in Note ii above) under the relevant PRC tax laws and regulations. As a result, Hangzhou Shengfeng was entitled to the two-year EIT exemption period for the two-years ended 31 December 2015 and 2016 and entitled 50% reduction for the years ended 31 December 2017, 2018 and 2019.

(v) Huoerguosi 7Road Network Technology Co., Ltd (霍爾果斯第七大道網絡科技有限公司) ("Huoerguosi 7Road") and Huoerguosi 39 Mutual Entertainment Network Technology Co., Ltd (霍爾果斯三九互娛網絡科技有限公司) ("Huoerguosi 39") qualified as a Software Enterprise within the Special Economic Development Zone under the relevant PRC tax laws and regulations in 2016. Pursuant to the relevant PRC tax laws and regulations, a company qualified as a Software Enterprise within the Special Economic Development Zone is entitled to a five-year EIT exemption period, commencing either from the first year of commercial operations or from the first year of profitable operations after offsetting tax losses carried forward from prior years. As a result, Huoerguosi 7Road was exempt from the PRC EIT for the five years ended 31 December 2016, 2017, 2018, 2019 and 2020.

(d) The PRC Withholding Tax ("WHT")

Pursuant to the relevant PRC tax laws and regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived on or after 1 January 2018 are generally subject to the PRC WHT at a tax rate of 10%. If a foreign investor incorporated in Hong Kong meets certain conditions and requirements under the double taxation treaty arrangement between the PRC and Hong Kong, the relevant tax rate of the PRC WHT will be reduced from 10% to 5%.

13 INCOME TAX CREDIT (continued)

Income tax credit for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss as follows:

	2020 RMB'000	2019 RMB'000
Profit before income tax	51,899	5,129
Tax calculated at PRC statutory tax rate of 25%	12,975	1,282
Tax effect of expenses not deductible for tax purpose	23,603	17,368
Tax effect of income not taxable for tax purpose	(1,130)	(4,969)
Under/(over)-provision in respect of prior years	18,767	(6,271)
Tax effect of tax losses not recognised	4,953	—
Utilisation of tax losses previously not recognised	(1,914)	(1,528)
Tax effect of temporary differences not recognised or previously not recognised	(25,136)	21,871
Effect of preferential income tax benefits granted to certain subsidiaries	(37,494)	(25,988)
Effect of additional deduction for research and development expenses	(24,699)	(16,662)
Remeasurement of deferred tax resulting from a change in applicable tax rate	(6,049)	2,193
Effect of different tax rates of subsidiaries operating in other jurisdictions	8,022	3,928
Income tax credit	(28,102)	(8,776)

14 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2020 RMB'000	2019 RMB'000
Profit attributable to owners of the Company	81,309	10,791
Weighted average number of ordinary shares in issue (in thousands)	2,441,664	2,464,093
Basic earnings per share for profit attributable to owners of the Company	0.0333	0.0044

(b) Diluted

Diluted earnings per share is the same as basic earnings per share as those contingently vesting shares in respect of the RSUs are not included in the computation of diluted earnings per share for the years ended 31 December 2020 and 2019, due to the fact that the non-market performance conditions of the RSUs were not satisfied as at the end of the reporting period.

15 DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2020, nor has any dividend been proposed since the end of the reporting period (2019: Nil).

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Servers and other equipment RMB'000	Furniture and leasehold improvements RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2019	13,175	36,649	23,620	3,142	1,529	78,115
Additions	–	165	2,403	–	509	3,077
Additions through acquisition of a subsidiary	–	498	–	81	–	579
Disposals	–	(16,752)	(401)	(2,302)	–	(19,455)
Transfer from CIP to buildings	2,038	–	–	–	(2,038)	–
At 31 December 2019	15,213	20,560	25,622	921	–	62,316
Additions	–	498	1,507	333	–	2,338
Additions through acquisition of a subsidiary	–	70	–	–	–	70
Disposals	(15,213)	(491)	–	–	–	(15,704)
At 31 December 2020	–	20,637	27,129	1,254	–	49,020
Accumulated depreciation						
At 1 January 2019	(938)	(34,611)	(21,816)	(2,065)	–	(59,430)
Depreciation charge (Note 9)	(441)	(374)	(2,020)	(297)	–	(3,132)
Disposals	–	15,864	320	1,692	–	17,876
At 31 December 2019	(1,379)	(19,121)	(23,516)	(670)	–	(44,686)
Depreciation charge (Note 9)	(489)	(465)	(1,619)	(70)	–	(2,643)
Disposals	1,868	460	–	–	–	2,328
At 31 December 2020	–	(19,126)	(25,135)	(740)	–	(45,001)
Carrying values						
At 31 December 2020	–	1,511	1,994	514	–	4,019
At 31 December 2019	13,834	1,439	2,106	251	–	17,630

The above items of property, plant and equipment, except for construction in progress, after taking into account the residual values, are depreciated on a straight-line basis over the following estimated useful lives:

Buildings	30 years
Servers and other equipment	3 years
Vehicles	4 years
Furniture	3 to 5 years
Leasehold improvements	Estimated useful lives of 1 to 3 years or remaining lease terms of 2 to 3 years, whichever is shorter

16 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation of property, plant and equipment has been charged to the consolidated statement of profit or loss as follows:

	2020 RMB'000	2019 RMB'000
Cost of revenue	405	596
Research and development expenses	1,154	1,418
Administrative expenses	1,084	1,118
	2,643	3,132

As at 31 December 2019, the Group's buildings of RMB13,834,000 and the related leasehold lands included in the right-of use assets of RMB70,488,000 (Note 17) were pledged as collateral for the Group's bank borrowings. These buildings and leasehold lands were disposed on 31 December 2020 and the related bank borrowing had been repaid subsequently on 21 January 2021.

17 RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Leased office premises RMB'000	Total RMB'000
As at 31 December 2020			
Carrying amount	—	7,854	7,854
As at 31 December 2019			
Carrying amount	70,488	12,599	83,087
For the year ended 31 December 2020			
Depreciation charge	1,284	5,550	6,834
For the year ended 31 December 2019			
Depreciation charge	1,284	4,214	5,498

	2020 RMB'000	2019 RMB'000
Expenses relating to short-term leases	667	2,305
Total cash outflow for leases	6,402	6,967
Additions to right-of-use assets	778	10,330
Disposals of right-of-use assets	69,205	—
Additions through acquisition of a subsidiary	—	8,830
Early termination of leases	—	3,528

For both years, the Group leases various offices for its operations. Lease contracts are entered into for fixed term of 1 to 3 years. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

18 INTANGIBLE ASSETS

	Goodwill RMB'000	Game copyrights and intellectual property license contracts RMB'000	Computer software licenses RMB'000	Domain name RMB'000	Total RMB'000
Cost					
At 1 January 2019	26,031	8,189	7,212	3,253	44,685
Additions through acquisition of a subsidiary (Note 32)	667,034	176,161	—	—	843,195
At 31 December 2019	693,065	184,350	7,212	3,253	887,880
Additions (Note 22(c))	—	169,811	—	—	169,811
Additions through acquisition of a subsidiary	—	1,600	—	—	1,600
Disposals through disposals of a subsidiary	—	(943)	—	—	(943)
At 31 December 2020	693,065	354,818	7,212	3,253	1,058,348
Accumulated Amortisation					
At 1 January 2019	—	(8,189)	(5,814)	(1,099)	(15,102)
Amortisation charge (Note 9)	—	(15,260)	(1,005)	(325)	(16,590)
At 31 December 2019	—	(23,449)	(6,819)	(1,424)	(31,692)
Amortisation charge (Note 9)	—	(68,307)	(285)	(325)	(68,917)
Disposals through disposals of a subsidiary	—	711	—	—	711
At 31 December 2020	—	(91,045)	(7,104)	(1,749)	(99,898)
Carrying values					
At 31 December 2020	693,065	263,773	108	1,504	958,450
At 31 December 2019	693,065	160,901	393	1,829	856,188

The above items of intangible assets, except for goodwill, are amortised on a straight-line basis over the following estimated useful lives:

Game copyrights and intellectual property license contracts	3 to 10 years
Computer software licenses	1 to 3 years
Domain name	10 years

18 INTANGIBLE ASSETS (continued)

Amortisation of intangible assets has been charged to the consolidated statement of profit or loss as follows:

	2020 RMB'000	2019 RMB'000
Cost of revenue	68,138	15,599
Research and development expenses	150	978
Administrative expenses	629	13
	68,917	16,590

Impairment assessment of goodwill

For the purpose of goodwill impairment testing, goodwill is allocated to each of the Group's CGUs (or group of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

The management considers groups of subsidiaries operating in specific regions, i.e. Shenzhen Sub-group and Shanghai Sub-group, represent the CGUs for the purpose of goodwill impairment testing. These CGUs are principally engaged in the development and distribution of web games and mobile games in the PRC. At the end of the reporting period, the carrying amount of goodwill allocated to these CGUs are as follows:

	2020 RMB'000	2019 RMB'000
Shanghai Sub-group	667,034	667,034
Shenzhen Sub-group	26,031	26,031
	693,065	693,065

The goodwill allocated to Shanghai Sub-group represent the goodwill arising from the acquisition of Osmanthus Vale Holdings Limited ("**Osmanthus Vale**"), whose operations are mainly based in Shanghai, the PRC. The acquisition of Osmanthus Vale was completed during the year ended 31 December 2019. Details of the acquisition are disclosed in Note 32.

The goodwill allocated to Shenzhen Sub-group represent the goodwill arising from the acquisition of Shenzhen Qianqi Network Technology Co,. Ltd. (深圳市千奇網絡科技有限公司) ("**Shenzhen Qianqi**"), whose operations are mainly based in Shenzhen, the PRC.

The recoverable amounts of the CGUs are determined based on the value in use calculations. The value in use calculations are derived from the cash flow projections of the CGUs based on the latest financial budgets approved by the management covering a period of five years.

18 INTANGIBLE ASSETS (continued)

Impairment assessment of goodwill (continued)

Key assumptions used for value-in-use calculations for impairment review purpose as at 31 December 2020 and their corresponding comparative information are as follows:

	Shanghai Sub-group	Shenzhen Sub-group
As at 31 December 2020		
5 years annual growth rate	1.3%	12.5%
Terminal growth rate	2.6%	2.6%
Terminal net profit margin	56.3%	22.9%
Discount rate	21.7%	21.7%
As at 31 December 2019		
5 years annual growth rate	(0.5%)	4.7%
Terminal growth rate	0%	0%
Terminal net profit margin	35.8%	26.1%
Discount rate	21.8%	20.3%

The discount rates used are pre-tax and reflect market assessments of the time value and the specific risks relating to the industry. The budgeted growth rate and net profit margins are determined by management based on past performance and its expectation for market development.

For the year ended 31 December 2020, the Group appointed Ravia Global Appraisal Advisory Limited (瑞豐環球評估諮詢有限公司), independent professional qualified valuers, to assist the management on carrying out the assessment of the discount rates.

Any change in the assumptions selected by management could materially affect the value-in-use calculations used in the impairment testing and therefore may result in an impairment charge to profit or loss.

As at 31 December 2020, the impairment assessments result in headroom of not less than 10% over the carrying amounts of goodwill and management, based on the sensitivity analysis performed, is not aware of any reasonably possible changes in a key assumption used that would cause a cash generating unit's carrying amount to exceed its recoverable amount.

19 INTERESTS IN JOINT VENTURES

	2020 RMB'000	2019 RMB'000
Cost of investment	**4,000**	4,000
Share of post-acquisition losses and other comprehensive expenses	**(4,000)**	(784)
	–	3,216

Details of the Group's joint ventures at the end of the reporting period are as follows:

Name of associates	Country of incorporation/ establishment	Equity interest held as at 31 December 2020	2019	Principal activity
Perfect World Qijia Information Technology (Shanghai) Co., Ltd. (完美時空柒嘉信息科技(上海)有限公司) ("**Perfect World Qijia**") (Note a)	The PRC	**40%**	40%	Development, operation and publishing of games and mobile games
Wuxi 7Road Culture and Media Co., Ltd. (無錫七道文化傳媒有限公司) ("**Wuxi 7Road Culture and Media**") (Note b)	The PRC	**50%**	50%	Culture media

Notes:

(a) Perfect World Qijia was established in the PRC on 15 October 2019, and is principally engaged in the development, operations and publishing of web-based games and mobile games. The Group injected capital of RMB4,000,000, which represents 40% equity interest, into Perfect World Qijia on 1 November 2019. Perfect World Qijia is accounted for as a joint venture of the Group since in accordance with its memorandum and articles of association, appointment of directors requires unanimous consent of all of its shareholders, and decision on major financial and operating policies requires unanimous consent of all of its directors.

(b) Wuxi 7Road Culture and Media was established in the PRC on 25 July 2019, and is principally engaged in the culture media business. As at 31 December 2020, the Group have not paid up the share capital of the joint venture.

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 RMB'000	2019 RMB'000
Unlisted equity investment	2,357	794

The unlisted equity investment represents the Group's equity interest in a private entity established in the PRC. The directors of the Company have elected to designate this unlisted equity investment as at fair value through other comprehensive income as they believe that this investment is not held for trading and is not expected to be disposed of in the foreseeable future.

Details of the Group's unlisted equity investment under financial assets at fair value through other comprehensive income at the end of the reporting period are as follows:

Name of investee	Country of incorporation/ establishment	Equity interest held as at 31 December		Principal activity
		2020	2019	
Zhuhai Leiku Interaction Technology Co., Ltd. (珠海雷酷互動科技有限公司)	The PRC	10%	10%	Development, operation and publishing of online games and mobile games

Movement of financial assets at fair value through other comprehensive income for the year is as follows:

	2020 RMB'000	2019 RMB'000
At beginning of the year	794	5,172
Fair value change	1,563	(4,378)
At end of the year	2,357	794

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'000	2019 RMB'000
Non-current		
Listed shares in the PRC	51	867
Unlisted equity investments in the PRC (Note)	207,993	1,490
	208,044	2,357
Current		
Listed shares in Hong Kong	40,539	111,469
	248,583	113,826

Details of the Group's unlisted equity investments under financial assets at fair value through profit or loss at the end of the reporting period are as follows:

Name of investee	Country of incorporation/ establishment	Equity interest held as at 31 December 2020	2019	Principal activity
Shenzhen Yigan Technology Co., Ltd. (深圳懿乾科技有限公司)	The PRC	15%	15%	Development, operation and publishing of online games and mobile games.
Shanghai Fengge Information Technology Co., Ltd. (上海風格信息技術股份有限公司)	The PRC	1.6%	1.6%	Development, operation and publishing of online games and mobile games.
Shanghai Longrui Information Technology Co., Ltd. (上海瓏睿信息科技有限公司) ("**Shanghai Longrui**") (Note a)	The PRC	1.4%	—	Construction and operation of internet data centre and related infrastructures
Nanjing Lingyu Technology Co., Ltd. (南京陵魚科技有限公司) ("**Nanjing Lingyu**") (Note b)	The PRC	10%	—	Development, operation and publishing of online games and mobile games.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Note: Included in the balance at 31 December 2020 was an equity investment in Shanghai Longrui of RMB207,420,000. On 28 July 2020, the Group entered into a sale and purchase agreement with Shanghai Zhiqilan Enterprise Management Partnership Enterprise (Limited Partnership) (上海智楷嵐企業管理合夥企業(有限合夥)) ("**Shanghai Zhiqilan**"), an independent third party of the Group. Pursuant to the sale and purchase agreement, the Group acquired 2% equity interest of Shanghai Longrui from Shanghai Zhiqilan at a consideration of RMB180,000,000. The equity interest held by the Group was subsequently diluted to 1.4% due to additional capital injections from another two of the shareholders of Shanghai Longrui on 10 August 2020. The investment in Shanghai Longrui is accounted for as a financial asset at fair value through profit or loss since the Group does not have any significant influence on Shanghai Longrui. The investment was subsequently disposed in April 2021 at a consideration of RMB207,420,000 and the consideration was fully received by the Group on 28 April 2021.

Movement of financial assets at fair value through profit or loss for the year is as follows:

	2020 RMB'000	2019 RMB'000
At beginning of the year	113,826	308,079
Additions	197,590	307,047
Additions through acquisition of a subsidiary	—	228
Disposals	(35,727)	(238,199)
Transfers to other receivables (Notes 22(f) and 22(g))	—	(195,337)
Fair value change (Note 8)	(23,791)	(67,992)
Exchange realignment	(3,315)	—
At end of the year	248,583	113,826

22 PREPAYMENT AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Non-current		
Loans to third parties (Note a)	—	4,394
Prepayments for investments (Note b)	—	80,000
Prepayments for joint mobile game development contract (Note c)	—	28,302
Prepayments for technology services (Note d)	2,358	2,358
Rental deposits	1,433	1,140
Loan to a joint venture (Note j)	2,000	—
Less: provision for impairment	(2,382)	(3,135)
	3,409	113,059
Current		
Loans to third parties (Note a)	7,420	3,022
Loan to a related party (Note b)	2,581	2,747
Housing loans to employee	2,235	1,601
Prepayments for advertisement and marketing	6,277	38,642
Prepayments for advisory services	228	523
Prepayments for copyright loyalty	705	681
Prepayments to game developers	8,786	22,837
Prepayments for investments (Note e)	23,638	66,810
Prepayments for technology services (Note d)	26,253	24,429
Receivable from disposals of investments (Note f)	20,299	113,439
Receivable from mobile game cooperation contract (Note g)	—	104,477
Receivable from refund for terminated mobile game cooperation contract (Note h)	—	106,387
Receivable from refund for undelivered technology services	1,300	3,000
Receivable from disposal of property, plant and equipment and right-of-use assets (Note i)	80,000	—
Recoverable value-added tax	16,572	9,511
Others (Note k)	30,090	9,140
Less: provision for impairment	(63,866)	(64,763)
	162,518	442,483
	165,927	555,542

22 PREPAYMENT AND OTHER RECEIVABLES (continued)

Notes:

(a) On 31 January 2018, the Group granted a loan of US$600,000 to an independent third party at an interest rate of 5% per annum with maturity date on 31 December 2021.

On 26 November 2018, the Group granted a loan of HK$2,480,000 to an independent third party supplier at an interest rate of 5% per annum with a maturity period with maturity date on 25 November 2021.

(b) On 18 December 2019, 20 January 2020 and 26 March 2020, the Group, as the potential investor, entered into a letter of intent, a framework agreement and a supplementary framework agreement, respectively, with Shanghai Municipal Government, a state-owned enterprise under Shanghai Municipal Government, and the local government for the proposed acquisition of the project company, a company principally engaged in the construction and operation of internet data centre and related infrastructures. Pursuant to the relevant agreement, refundable down prepayments amounted to RMB80,000,000 and RMB50,000,000. The aforesaid RMB130,000,000 had been fully refunded in August 2020 due to the restructure of investment arrangement.

(c) On 20 December 2019, the Group entered into a joint mobile game development contract with a well-known game developer. Pursuant to the joint mobile game development contract, the Group and the cooperation party agreed to jointly develop a new mobile game. The cooperation party was mainly responsible for the visual design, text writing, game content design, software programming and technology support etc., while the Group was mainly responsible to assist the cooperation party in certain areas, including text writing, game content design and software programming. In addition, the Group is obligated to pay the cooperation party for 65% of the total costs incurred in developing the mobile game, limited to a maximum amount of RMB195,000,000. As at 31 December 2020, the Group has paid an accumulated amount of RMB180,000,000 (2019: RMB30,000,000) as the joint development cost to the cooperation party. During the year ended 31 December 2020, the prepayment for joint mobile game development contract was transferred to intangible assets.

(d) The Group entered into technology service agreements with various independent third-party agencies during the years ended 31 December 2019. Two of the technology service agreements were signed between the Group and Shenzhen Chuangyu Technology Co., Ltd. (深圳市創娛科技有限公司) ("**Shenzhen Chuangyu**") and Shenzhen Xiaoduo Technology Co., Ltd. (深圳小多科技有限公司) ("**Shenzhen Xiaoduo**"). Pursuant to the technology services agreements, Shenzhen Chuangyu was engaged to develop mobile games according to the Group's instructions, while Shenzhen Xiaoduo was engaged to provide game consulting services to the Group. However, due to Shenzhen Chuangyu's significant delay in the game product delivery schedule and Shenzhen Xiaoduo's failure on delivery of game consulting services, the management is of the opinion that the recoverability of these prepayments through delivery of game product and game consulting services are uncertain. Accordingly, impairment on these prepayments of RMB24,699,000 (2019: RMB24,699,000) were provided as at 31 December 2020.

22 PREPAYMENT AND OTHER RECEIVABLES (continued)

Notes: (continued)

(e) On 1 July 2019, the Group, as the potential investor, entered into a letter of intent with an investment management company, an independent third party of the Group, for the proposed acquisition of not more than 12% equity interest of a company principally engaged in the operations and publishing of web-based games and mobile games. Pursuant to the letter of intent, a refundable down payment of RMB60,000,000 was paid to the designated recipient of the investment management company on 1 July 2019. During the year ended 31 December 2020, it was confirmed by both parties that the potential acquisition could not be completed. The down payment of RMB60,000,000 was refunded to the Group accordingly, of which RMB40,000,000 was refunded on 16 March 2020 and RMB20,000,000 was refunded on 28 May 2020.

On 7 November 2020, the Group entered into a sale and purchase agreement with Shanghai Guanzhao Investment Centre (Limited Partnership) (上海冠兆投資中心(有限合夥)), Shanghai Chengpei Investment Centre (Limited Partnership) (上海成沛投資中心(有限合夥)), Shanghai Yinrong Investment Centre (Limited Partnership) (上海銀榮投資中心(有限合夥)) and Joyful Time Global Ltd. (collectively referred to as the "**Vendors**") for the purpose of acquiring Locojoy HongKong International Limited ("**Locojoy HongKong**"). Pursuant to the sale and purchase agreement, the Group conditionally agreed to acquire and the Vendors conditionally agreed to sell the entire issued share capital of Locojoy HongKong at a total consideration of RMB1,183,650,000, subject to certain adjustments. Pursuant to the sale and purchase agreement, the Group had made prepayments of RMB20,000,000 in aggregate to the Vendors on 11 November 2020. Subsequent to the financial year end, the acquisition was terminated and the prepayment was fully refunded.

(f) On 12 June 2018, the Group, entered into a series of agreements with Shenzhen Longyoutianxia Internet Technology Co., Ltd. (深圳市龍游天下網絡科技有限公司) ("**Shenzhen Longyoutianxia**"), an independent third-party of the Group. Pursuant to the series of agreements, the Group disposed certain equity investments to Shenzhen Longyoutianxia at a consideration of RMB27,149,000. However, due to the financial difficulty of Shenzhen Longyoutianxia, only RMB6,850,000 of the consideration was settled and full impairment on the remaining RMB20,299,000 was provided during the year ended 31 December 2018. There is no repayment from Shenzhen Longyoutianxia during the years ended 31 December 2019 and 2020.

On 10 October 2019, the Group entered into a share transfer agreement with an independent third party (the "**Transferee**"), to dispose its investment in Ningbo Jiujin Investment Partnership Enterprise (Limited Partnership) (寧波九晉投資合夥企業(有限合夥)). The investment in Ningbo Jiujin was accounted for as a financial asset at fair value through profit or loss with carrying amount of RMB90,860,000 as at the date of disposal. During the year ended 31 December 2020, the Group recognised interest income on receivable from disposals of investments of RMB2,735,000 (2019: RMB2,279,000). As at 31 December 2020, the consideration of RMB90,860,000 of such investment, together with the interest income from disposals of investments of RMB5,014,000, had been fully received on 4 June 2020.

(g) On 31 January 2019, the Group entered into a cooperation contract with an independent third party mobile game publisher (the "**Publisher**"). Pursuant to the cooperation contract, the Group agreed to cooperate in the advertising and promotion of a mobile game in certain overseas markets and the inception amount borne by the Group was HK$100,000,000 (equivalent to approximately RMB88,843,000) ("**Cooperation Amount**") for the period from 1 March 2019 to 30 November 2019 ("**Cooperation Period**"). The cooperation contract was accounted for as a financial asset at fair value through profit or loss during the Cooperation Period and was transferred to other receivables upon the end of the Cooperation Period. The return on the cooperation contract amounted to RMB15,634,000 was recognised as fair value change on financial assets at fair value through profit or loss. The Cooperation Amount of RMB88,843,000, together with the return on the cooperation contract of RMB15,634,000, were fully received on 28 May 2020.

22 PREPAYMENT AND OTHER RECEIVABLES (continued)

Notes: (continued)

(h) On 12 January 2019, the Group entered into a cooperation contract with an independent third party (the "**Party**"), an independent third party of the Group. The Group has paid 39 Mutual an amount of US$25,000,000 pursuant to the cooperation agreement, however, the cooperation agreement was terminated on 26 June 2019. Pursuant to the termination agreement and two supplemental agreements on 29 June 2019, 31 August 2019 and 20 December 2019, the Party agreed to repay an amount of US$26,500,000 (including compensation income of US$1,500,000) to the Group, by three instalments amounted to US$11,000,000, US$3,000,000 and US$12,500,000 on 29 June 2019, 31 January 2020 and 30 April 2020, respectively. As at 31 December 2019, the first instalment of US$11,000,000 has been settled and the remaining amount of US$15,500,000 (equivalent to approximately RMB106,387,000) was included in other receivables. During the year ended 31 December 2020, the Group proportionally recognised compensation income of RMB1,772,000 (2019: RMB8,893,000). As at 31 December 2020, the remaining amount has been fully settled.

(i) On 31 December 2020, the Group entered into a sale and a purchase agreement with an independent third-party to dispose its buildings (under property, plant and equipment) and the related leasehold lands (under right-of-use assets) for a total consideration of RMB85,000,000, plus an additional agreed construction compensation of RMB5,000,000. The above amount had been subsequently settled on 12 January 2021.

(j) On 6 November 2020, the Group granted a loan of RMB2,000,000 to a joint venture. The loan is interest-free with maturity date on 9 November 2023.

(k) On 17 August 2020, the Group entered into a joint television drama investment agreement with two independent third-parties. Pursuant to the joint television drama investment agreement, the Group was required to invest RMB14,000,000 for the production of the underlying television drama, which represented 10% of the total production costs (i.e. RMB140,000,000), and the Group was guaranteed to receive its investment sum together with a 20% return from the investment by 31 December 2020. As at 31 December 2020, the Group has invested a total of RMB14,000,000. The television drama's production was completed, and the drama is scheduled to be broadcasted soon, which was delayed due to COVID-19 pandemic. Subsequent to the financial year end, the related 20% return RMB2,800,000 was fully received on 24 May 2021.

23 TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	307,019	253,977
Less: provision for impairment	(16,516)	(24,304)
	290,503	229,673

The Group's trade receivables were denominated in the following currencies:

	2020 RMB'000	2019 RMB'000
RMB	277,097	199,124
US$	27,292	50,886
Others	2,630	3,967
	307,019	253,977

23 TRADE RECEIVABLES (continued)

The Group allows a credit period of 30 to 120 days to its customers. The ageing analysis of trade receivables presented based on the dates of delivery of goods and services is as follows:

	2020 RMB'000	2019 RMB'000
Within 3 months	164,190	130,020
3 to 6 months	32,292	61,883
6 months to 1 year	57,091	39,841
1 to 2 years	48,121	19,246
Over 2 years	5,325	2,987
	307,019	253,977

Details of the impairment assessment of trade receivables are disclosed in Note 3.1(b).

24 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	2020 RMB'000	2019 RMB'000
Bank balances	377,306	44,011
Denominated in the following currencies:		
RMB	141,670	33,298
HK$	25,190	2,157
US$	210,446	8,473
Other	—	83
	377,306	44,011

Bank balances carry interest at floating rates based on daily bank deposit rates. The conversion of the RMB denominated bank balances maintained in the PRC into foreign currencies is subject to the laws and regulations of foreign exchange control promulgated by the PRC government.

24 BANK BALANCES AND CASH (continued)

(b) Restricted cash

	2020 RMB'000	2019 RMB'000
Non-current		
Restricted deposits (Note a)	**1,946**	1,935
Current		
Restricted dividend payable account	**1**	1
	1,947	1,936

Note:

(a) Restricted deposits represent government grants prepaid to the Group and held by the banks in segregated accounts. The balances are denominated in RMB and will be available for withdrawal when the Group fulfils all the obligations required by the government.

25 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital RMB'000	Share premium RMB'000	Total RMB'000
Ordinary shares of US$0.000005 each				
As at 1 January 2019	2,666,680,000	88	3,854,742	3,854,830
Repurchase and cancellation of shares (Note b)	(47,180,000)	(2)	(63,046)	(63,048)
As at 31 December 2019	2,619,500,000	86	3,791,696	3,791,782
Issue of shares (Note c)	133,700,000	4	291,620	291,624
Transaction costs attributable to issue of shares (Note c)	—	—	(231)	(231)
As at 31 December 2020	2,753,200,000	90	4,083,085	4,083,175

Notes:

(a) As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020, the authorized share capital of the Company is US$50,000, divided into 10,000,000,000 shares of a par value of US$0.000005 each.

(b) During the year ended 31 December 2019, the Company repurchased 47,180,000 shares at aggregate repurchase price of HK$70,856,000 (equivalent to approximately RMB63,048,000) and all these repurchased shares were cancelled thereafter. Accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to Section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB2,000 was transferred from retained earnings to capital redemption reserve. The premium paid on repurchase of the shares of RMB63,046,000 was charged to share premium.

(c) On 29 December 2020, the Company allotted and issued 133,700,000 shares at a subscription price of HK$2.59 per share to DianDian Interactive Holding, a wholly-owned subsidiary of Zhejiang Shiji Huatong Group Co., Ltd. (浙江世紀華通集團股份有限公司), a company listed on the Shenzhen Stock Exchange (SZSE: 002602). The gross proceeds arising from the issue of shares was HK$346,283,000 (equivalent to approximately RMB291,620,000) and the transaction costs attributable to the issue of shares was HK$275,000 (equivalent to approximately RMB231,000).

26 OTHER RESERVES

	Shares held for RSU Scheme RMB'000	Shareholder contribution reserve RMB'000	Statutory surplus reserve RMB'000	Capital reserve RMB'000	Capital redemption reserve RMB'000	Share-based compensation reserve RMB'000	Financial assets at fair value through other comprehensive income reserve RMB'000	Currency translation reserve RMB'000	Total RMB'000
At 1 January 2020	(273,592)	273,592	5,000	(3,032,350)	2	18,545	(3,206)	34,675	(2,977,334)
Share-based compensation									
– value of employee services (Notes 9 and 27)	–	–	–	–	–	2,741	–	–	2,741
Fair value changes on financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	1,563	–	1,563
Currency translation differences of foreign operations	–	–	–	–	–	–	–	20,254	20,254
At 31 December 2020	(273,592)	273,592	5,000	(3,032,350)	2	21,286	(1,643)	54,929	(2,952,776)
At 1 January 2019	(273,592)	273,592	5,000	(3,032,350)	–	35,632	879	21,613	(2,969,226)
Repurchase and cancellation of shares	–	–	–	–	2	–	–	–	2
Share-based compensation									
– value of employee services (Notes 9 and 27)	–	–	–	–	–	10,644	–	–	10,644
– vested and settled (Note 27)	–	–	–	–	–	(27,731)	–	–	(27,731)
Fair value changes on financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	(4,085)	–	(4,085)
Currency translation differences of foreign operations	–	–	–	–	–	–	–	13,062	13,062
At 31 December 2019	(273,592)	273,592	5,000	(3,032,350)	2	18,545	(3,206)	34,675	(2,977,334)

27 EQUITY-SETTLED SHARE-BASED COMPENSATION

On 6 March 2018, to incentivise directors, senior management and employees, a RSU Scheme was approved and adopted by the Company. ESOP 1 Holdings Limited ("**ESOP 1 Holdings**") and ESOP 2 Holdings Limited ("**ESOP 2 Holdings**") were incorporated to hold 8,946,600 ordinary shares of the Company (equivalent to 178,932,000 ordinary shares of the Company upon the completion of the Share Subdivision and Global Offering for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited), which were contributed by a shareholder of the Company. ESOP 1 Holdings and ESOP 2 Holdings were consolidated by the Company as the Company is able to execute its power over the control and management of ESOP 1 Holdings and ESOP 2 Holdings. These shares are considered treasury shares held for the RSU Scheme indirectly by the Company.

On 31 March 2018, in exchange for employee services to the Group, 5,040,000 RSUs (equivalent to 100,800,000 ordinary shares of the Company) were granted to certain eligible persons selected by the Board of Directors of the Company. Under the terms of the grant letter, the RSUs shall be vested as to 30%, 30% and 40% on 31 March 2019, 31 March 2020 and 31 March 2021, respectively, of which certain designated grantees are also required to fulfil certain service conditions.

As the Group received the benefits associated with the services of the eligible persons, the fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by the fair value of the RSUs granted less the subscription costs, if any, taking into consideration of forfeiture rate, and amortised over the different vesting periods of each grant with a credit recognised in equity as the share-based compensation reserve.

As a private company with no quoted market price of the ordinary shares of the Company at the date of grant, the Company was required to estimate the fair value of its ordinary shares at the date of grant. The discounted cash flow model under the income approach has been applied in the determination of fair value of the equity interest of the Company. The cash flow projections prepared by the management take into account the Group's future business plan, specific business and financial risks, stage of development of the Group's operations and economic and competitive elements affecting the Group's business, industry and market. As at 31 March 2018, the fair value of each RSU was valued at RMB27.6.

Movement of the RSU Scheme for the year is as follows:

	2020	2019
At beginning of the year	19,547,500	88,825,000
Granted	—	—
Forfeited or lapsed	(11,807,500)	(47,640,000)
Vested and settled (Note a)	—	(21,637,500)
At end of the year	7,740,000	19,547,500

27 EQUITY-SETTLED SHARE-BASED COMPENSATION (continued)

Note:

(a) On 31 March 2019, 30% of the RSUs granted on 31 March 2018, representing 21,637,500 ordinary shares of the Company, were vested. On the same date, the Company made amendments to the grant letter of all grantees, as allowed by the terms of the RSU Scheme. Pursuant to the amendments, (i) the aforesaid vested RSUs, representing 21,637,500 ordinary shares of the Company, were settled by cash at HK$1.5 per share, representing RMB27,731,000 in aggregate, and (ii) certain non-market performance conditions for the vesting of the remaining 70% of the RSUs granted ("**Additional Vesting Conditions**") were added.

The excess of the cash settlement of RMB27,731,000 over the fair value of 21,637,500 ordinary shares of the Company, amounted to RMB924,000, represents additional benefits provided to the grantees and was charged to profit or loss during the year ended 31 December 2019.

The Additional Vesting Conditions do not indicate any additional benefits provided to the grantees. Accordingly, the RSUs granted shall be accounted for in the same way as if there is no inclusion of such Additional Vesting Conditions.

Expenses arising from the share-based compensation have been charged to the consolidated statement of profit or loss as follows:

	2020 RMB'000	2019 RMB'000
Share-based compensation (Notes 9 and 10)	2,741	10,644

28 LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Within 1 year	5,026	5,093
1 to 2 years	3,300	7,895
2 to 5 years	12	—
	8,338	12,988
Less: Amount due for settlement within 12 months shown under current liabilities	(5,026)	(5,093)
Amount due for settlement after 12 months shown under non-current liabilities	3,312	7,895

The weighted average incremental borrowing rates applied to lease liabilities range from 4.75% to 5.39% (2019: from 4.75% to 5.39%).

29 BANK AND OTHER BORROWINGS

	2020 RMB'000	2019 RMB'000
Secured bank and other borrowings		
— RMB loan (Note a)	56,546	41,434
— HK$ loan (Note b)	—	2,920
	56,546	44,354

Notes:

(a) On 12 September 2016, the Group was granted with a loan from a bank of RMB61,600,000 at an interest rate of RMB Loan Prime Rate plus 1.09% per annum for a period of 10 years. The outstanding bank borrowing was fully repaid subsequently on 21 January 2021.

On 4 March 2020, the Group was granted with a loan from a bank of RMB15,000,000 at an interest rate of RMB Loan Prime Rate plus 1.3875% per annum for a period of 1 year. The outstanding bank borrowing was fully repaid on 18 January 2021.

On 6 July 2020, the Group was granted with a loan from a bank of RMB15,000,000 at an interest rate of RMB Loan Prime Rate plus 1.5875% per annum for a period of 1 year. The outstanding bank borrowing was fully repaid on 18 January 2021.

(b) During the year ended 31 December 2019, the Group was granted with a margin financing facility amount of HK$3,000,000. The margin financing facility was secured by certain listed securities included in financial assets at fair value through profit or loss of the Group with fair value of RMB15,008,000 as at 31 December 2019.

As the end of the reporting period, the Group's bank and other borrowings were repayable as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	56,546	9,058
1 to 2 years	—	6,138
2 to 5 years	—	18,415
Over 5 years	—	10,743
	56,546	44,354

At the end of the reporting period, the carrying amounts of the Group's bank and other borrowings approximate to their fair values.

The fair values of non-current bank and other borrowings are based on discounted cash flows using a current borrowing rate.

30 DEFERRED INCOME TAX

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

	2020 RMB'000	2019 RMB'000
Deferred income tax assets	57,071	18,741
Deferred income tax liabilities	(32,153)	(48,614)
	24,918	(29,873)

Movement of deferred income tax assets/(liabilities) for the year is as follows:

	Contract liabilities RMB'000	Impairments RMB'000	Tax losses RMB'000	Fair value change of financial assets RMB'000	Fair value adjustment on intangible assets acquired on business combination RMB'000	Undistributed profits of subsidiaries RMB'000	Total RMB'000
At 1 January 2020	1,846	14,701	2,590	163	(41,019)	(8,154)	(29,873)
(Charged)/credited to profit or loss	(530)	15,184	30,494	(6,685)	16,620	–	55,083
Disposal through disposal of a subsidiary	–	(692)	–	–	–	–	(692)
Exchange realignment	–	(74)	–	–	–	474	400
At 31 December 2020	1,316	29,119	33,084	(6,522)	(24,399)	(7,680)	24,918
At 1 January 2019	5,278	9,563	–	(5,229)	–	(8,154)	1,458
Charged to other comprehensive income	–	–	–	293	–	–	293
(Charged)/credited to profit or loss	(4,383)	4,492	2,590	5,099	1,941	–	9,739
Addition through acquisition of a subsidiary	951	646	–	–	(42,960)	–	(41,363)
At 31 December 2019	1,846	14,701	2,590	163	(41,019)	(8,154)	(29,873)

Pursuant to the relevant PRC tax laws and regulations, withholding tax is imposed on dividends distributed in respect of profits earned by the Company's PRC subsidiaries when actual payment of dividends is made. As at 31 December 2020, except for the deferred income tax liabilities of RMB7,680,000 (2019: RMB8,154,000), no withholding tax had been provided for the retained earnings of approximately RMB281,797,000 (2019: RMB298,954,000) that are expected to be retained by the Company's PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.

31 TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Non-current		
Contingent consideration payable for acquisition of a subsidiary	92,291	273,750
Current		
Trade payables	9,199	34,936
Payroll liabilities	35,108	36,124
Other tax payables	15,624	15,576
Dividend payables	1	1
Listing fee payable	7,626	8,543
Government grants (Note 24(b))	1,935	1,935
Accrued expenses	11,211	8,811
Contingent consideration payable for acquisition of a subsidiary	195,709	223,959
Payable for financial assets at fair value through profit or loss	20,000	—
Others	13,199	2,574
	309,612	332,459
	401,903	606,209

The ageing analysis of trade payables presented based on the invoice date is as follows:

	2020 RMB'000	2019 RMB'000
0 to 30 days	961	13,211
31 to 60 days	1,294	6,449
61 to 90 days	459	16
91 to 180 days	1,390	476
181 to 365 days	1,352	1,279
Over 1 year	3,743	13,505
	9,199	34,936

32 ACQUISITION OF A SUBSIDIARY

On 22 October 2019, the Group acquired 100% equity interest in Osmanthus Vale. Osmanthus Vale and its subsidiaries are principally engaged in the development and distribution of web games and mobile games in the PRC. The acquisition has been accounted for as acquisition of business using the acquisition method. The primary reasons for the acquisition were to the expand the Group's business and to increase the returns to its shareholders.

Details of fair value of net identifiable assets acquired and goodwill arising from the acquisition are as follows:

	RMB'000
Consideration transferred	
— Prepayment for the acquisition made prior to the date of acquisition	371,555
— Fair value of contingent consideration payable as at the date of acquisition (Note a)	544,791
	916,346
Non-controlling interests (Note b)	(4,542)
Fair value of net identifiable assets acquired (See below)	(244,770)
Goodwill arising from the acquisition	667,034

Notes:

(a) The contingent consideration payable of RMB544,791,000 represents the gross amount of contingent consideration payable of RMB590,840,000, offsetting with the amount due from the vendor of RMB46,049,000. The amount due from the vendor mainly represent the compensation from the vendor in respect of the indemnification of extra staff costs and income tax expenses of the acquiree in accordance with the sale and purchase agreement. The contingent consideration payable and the amount due from the vendor were offset as there is a legally enforceable right to offset the amounts, and the Group is intended to settle the amounts on a net basis.

(b) The non-controlling interests recognised at the date of acquisition were measured by reference to the proportionate share of fair values of net identifiable assets of two of Osmanthus Vale's subsidiaries, Shanghai Yingling Network Technology Co., Ltd. (上海螢鈴網絡科技有限公司) ("**Shanghai Yingling**") and Shanghai Nongyou Network Technology Co., Ltd. (上海儂游網絡科技有限公司) ("**Shanghai Nongyou**"), at the date of acquisition. The amount is debit side of RMB4,542,000 since Shanghai Yingling and Shanghai Nongyou had net liabilities at the date of acquisition.

32 ACQUISITION OF A SUBSIDIARY (continued)

The Group appointed Fujian United Assets Evaluation & Land and Real Estate Appraisal Co., Limited (福建聯合中和資產評估土地房地產估價有限公司) and Ravia Global Appraisal Advisory Limited (瑞豐環球評估諮詢有限公司), independent professional qualified valuers, to assist the management on carrying out the purchase price allocation exercise in accordance with IFRS 3 including the assessment of fair value of the acquired assets and liabilities of the acquiree. The fair values of the assets and liabilities of the acquiree at date of acquisition are as follows:

	RMB'000
Property, plant and equipment	579
Right-of-use assets	3,528
Intangible assets — Intellectual properties	176,161
Financial assets at fair value through profit or loss	228
Deferred income tax assets	1,052
Trade receivables (Note a)	151,859
Prepayment and other receivables (Note a)	60,917
Cash and cash equivalents	23,559
Deferred income tax liabilities	(42,415)
Trade and other payables	(45,485)
Current income tax liabilities	(47,603)
Contract liabilities	(34,231)
Lease liabilities	(3,379)
Net identifiable assets acquired by the Group	244,770

Note:

(a) The fair values of trade receivables and prepayment and other receivables at the date of acquisition amounted to RMB151,859,000 and RMB60,917,000 respectively. The gross contractual amounts of those trade receivables and prepayment and other receivables amounted to RMB157,927,000 and RMB73,133,000 respectively at the date of acquisition. The best estimate at the date of acquisition of the contractual cash flows not expected to be collected amounted to RMB6,068,000 and RMB12,216,000 respectively.

Movement of the contingent consideration payable since the date of acquisition is as follows:

	RMB'000
At the date of acquisition	544,791
Cash settlements	(52,072)
Fair value change (Note 8)	12,652
Exchange realignment	(7,662)
At 31 December 2019	497,709
Cash settlements	(230,324)
Fair value change (Note 8)	46,397
Exchange realignment	(25,782)
At 31 December 2020	288,000

32 ACQUISITION OF A SUBSIDIARY (continued)

Depending on the result of Adjustment Mechanism (as described below), included in the contingent consideration payable of RMB288,000,000 (2019: RMB497,709,000) as at 31 December 2020, RMB195,709,000 (2019: RMB223,959,000) is payable within twelve months after the end of the reporting period and is included in current liabilities. The remaining amounts of RMB92,291,000 (2019: RMB273,750,000) is payable more than twelve months after the end of the reporting period, and is included in non-current liabilities.

The net cash inflow arising from the acquisition is as follows:

	RMB'000
Cash and cash equivalents acquired	23,559

Pursuant to the sale and purchase agreement, the consideration of the acquisition is RMB1,000,000,000. However, the fair value of contingent consideration is adjusted due to following two reasons:

(i) The fair value of contingent consideration is adjusted by time value of money, by discounting future cash outflows to the present value as at the date of acquisition.

(ii) Pursuant to the sale and purchase agreement, the fair value of contingent consideration is also subject to the adjustment mechanism in respect of, "Profit Compensation", "Goodwill Impairment Compensation" and "Additional Consideration" (collectively referred to as the "**Adjustment Mechanism**"), as described below:

(a) The Profit Compensation may reduce the contingent consideration to as low as zero shall the actual net profit (the "**Actual Net Profit**") of Osmanthus Vale and its subsidiaries (collectively referred to as the "**Acquired Group**") for the three financial years ended/ending 31 December 2019, 2020 and 2021 fall below RMB117,000,000, RMB134,000,000 and RMB151,000,000 (the "**Net Profit Benchmark**"), respectively, for certain level in accordance with the formulas set out below:

For the year ended 31 December 2019

Profit compensation for the year ended 31 December 2019 = RMB1,000,000,000 x (Net Profit Benchmark for the year ended 31 December 2019 — Actual Net Profit for the year ended 31 December 2019)/Total Net Profit Benchmark

For the year ended 31 December 2020

Profit compensation for the year ended 31 December 2020 = RMB1,000,000,000 x (Net Profit Benchmark for the year ended 31 December 2020 — Actual Net Profit for the year ended 31 December 2020)/Total Net Profit Benchmark

For the year ending 31 December 2021

Profit compensation for the year ending 31 December 2021 = RMB1,000,000,000 x (Net Profit Benchmark for the year ending 31 December 2021 — Actual Net Profit for the year ending 31 December 2021)/Total Net Profit Benchmark

32 ACQUISITION OF A SUBSIDIARY (continued)

(ii) (continued)

(b) The Goodwill Impairment Compensation may reduce the contingent consideration by the goodwill impairment amounts net of Profit Compensation for each of the financial years ended/ending 31 December 2019, 2020 and 2021 in accordance with the formulas set out below:

For the year ended 31 December 2019

Goodwill Impairment Compensation for the year ended 31 December 2019 = impairment amount of goodwill for the year ended 31 December 2019 – the Profit Compensation for the year ended 31 December 2019 (if any)

For the year ended 31 December 2020

Goodwill Impairment Compensation for the year ended 31 December 2020 = impairment amount of goodwill for the year ended 31 December 2020 – the Profit Compensation for the year ended 31 December 2020 (if any)

For the year ending 31 December 2021

Goodwill Impairment Compensation for the year ending 31 December 2021 = impairment amount of goodwill for the year ending 31 December 2021 – the Profit Compensation for the year ending 31 December 2021 (if any)

(c) The Additional Consideration may increase the contingent consideration for an additional cash consideration of RMB200,000,000 and additional shares to be issued by the Company to the vendor, limited to 4.5% of the total issued share capital of the Company as at the date of acquisition, shall the Acquired Group successfully fulfil the Net Profit Benchmark for each of the financial years ended/ending 31 December 2019, 2020 and 2021, and the aggregate actual net profits for the three financial years ended/ending 31 December 2019, 2020 and 2021 exceed the total Net Profit Benchmark of RMB402,000,000 in accordance with the formulas set out below:

In the event that the aggregate amount of the total Actual Net Profit for the years ended/ending 31 December 2019, 2020 and 2021 exceeds of RMB402,000,000 but less than RMB510,000,000

Additional Consideration = (Aggregate amount of the Actual Net Profit for the years ended/ending 31 December 2019, 2020 and 2021 – RMB402,000,000) x 60%

In the event that the aggregate amount of the Actual Net Profit for the years ended/ending 31 December 2019, 2020 and 2021 equals to RMB510,000,000

Additional Consideration = RMB200,000,000

32 ACQUISITION OF A SUBSIDIARY (continued)

(ii) (continued)

(c) The Additional Consideration may increase the contingent consideration for an additional cash consideration of RMB200,000,000 and additional shares to be issued by the Company to the vendor, limited to 4.5% of the total issued share capital of the Company as at the date of acquisition, shall the Acquired Group successfully fulfil the Net Profit Benchmark for each of the financial years ended/ending 31 December 2019, 2020 and 2021, and the aggregate actual net profits for the three financial years ended/ending 31 December 2019, 2020 and 2021 exceed the total Net Profit Benchmark of RMB402,000,000 in accordance with the formulas set out below: (continued)

In the event that the aggregate amount of the Actual Net Profit for the years ended/ending 31 December 2019, 2020 and 2021 exceeds RMB510,000,000 but less than (or equals to) RMB600,000,000

Additional Consideration = RMB200,000,000 plus additional shares issued by the Company to the vendors (the "**Additional Shares**")

Number of Additional Shares = (Aggregate amount of the Actual Net Profit for the years ended/ending 31 December 2019, 2020 and 2021 – RMB510,000,000) x 2.35/HK$2.10

In any event, the Additional Shares shall not exceed 4.5% of the total issued share capital of the Company as at the date of acquisition.

In the event that the aggregate amount of the Actual Net Profit for the years ended/ending 31 December 2019, 2020 and 2021 exceeds RMB600,000,000

Additional Consideration = RMB200,000,000 plus Additional Shares

Number of Additional Shares = 100,714,286 shares

100,714,286 shares represent approximately 3.84% of the total issued share capital of the Company as at the date of acquisition. Such number of Additional Shares is determined in accordance with the formula below:

Number of Additional Shares = (RMB600,000,000 – RMB510,000,000) x 2.35/HK$2.10

In the opinion of the directors of the Company, the fair value of the Adjustment Mechanism was insignificant based on the forecast of the performance of the Acquired Group at the date of acquisition. For the year ended 31 December 2020, no significant change on the fair value of the contingent consideration payable (2019: Nil) was recognised.

Goodwill arose from the above acquisition since the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce of the business.

Goodwill arising from the acquisition is not expected to be deductible for tax purposes.

For the years ended 31 December 2020 and 31 December 2019, no Profit Compensation, Goodwill Compensation and Additional Compensation were resulted under Adjustment Mechanism in respect of the results for the years ended 31 December 2020 and 31 December 2019.

32 ACQUISITION OF A SUBSIDIARY (continued)

During the year ended 31 December 2019, the Acquired Group contributed RMB101,486,000 and RMB66,977,000 to the Group's revenue and profit after tax, respectively, for the period between the date of acquisition and the end of the reporting period.

Had the acquisition been effected on 1 January 2019, revenue and profit after tax of the Group for the year ended 31 December 2019 would have been RMB495,734,000 and RMB45,114,000, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and profit after tax of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

33 CASH FLOW INFORMATION

(a) Cash generated from operations

	2020 RMB'000	2019 RMB'000
Profit before income tax	51,899	5,129
Share of results of joint ventures (Note 19)	3,216	784
Finance costs, net (Note 12)	3,064	2,281
Interest income on receivable from disposals of investments	(2,735)	(2,279)
Rent concession	(210)	—
Depreciation of property, plant and equipment (Note 16)	2,643	3,132
Depreciation of right-of-use assets (Note 17)	6,834	5,498
Amortisation of intangible assets (Note 19)	68,917	16,590
Net (reversal)/provision of impairment losses on financial assets under expected credit loss model	(5,791)	36,626
Equity-settled share-based compensation (Note 27)	2,741	10,644
(Gains)/losses on disposals of property, plant and equipment	(66)	149
Gains on disposal of subsidiaries	(1,597)	—
Fair value change on financial asset at fair value through profit or loss (Note 21)	23,791	67,992
Fair value change on contingent consideration payable for acquisition of a subsidiary (Note 8)	46,397	12,652
Increase in trade receivables and prepayment and other receivables	(46,733)	(53,443)
(Increase)/decrease in restricted cash	(11)	247
(Decrease)/increase in trade and other payables	(14,601)	5,473
Increase/(decrease) in contract liabilities	11,884	(32,146)
	149,642	79,329

33 CASH FLOW INFORMATION (continued)

(b) Movement of financing activities

	At beginning of the year RMB'000	Cash flows RMB'000	Interest expense RMB'000	Rent concession RMB'000	Acquisition of a subsidiary RMB'000	New leases entered RMB'000	At end of the year RMB'000
For the year ended 31 December 2020							
Bank and other borrowings	44,354	9,058	3,134	–	–	–	56,546
Lease liabilities	12,988	(5,735)	517	(210)	–	778	8,338
	57,342	3,323	3,651	(210)	–	778	64,884
For the year ended 31 December 2019							
Bank and other borrowings	47,573	(5,825)	2,606	–	–	–	44,354
Lease liabilities	12,283#	(4,662)	488	–	3,379	1,500	12,988
	59,856	(10,487)	3,094	–	3,379	1,500	57,342

Lease liabilities as at 1 January 2019 represents the amount after adjustment in respect of the initial application of IFRS 16.

34 CAPITAL COMMITMENTS

	2020 RMB'000	2019 RMB'000
Capital expenditure in respect of the acquisition of intangible assets contracted for but not provided in the consolidated financial statements	15,000	165,000

35 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes, the following significant transactions were carried out between the Group and its related parties during the reporting period. 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 during the reporting period.

Name of related party	Relationship with the Group
Ben 7Road Holdings Limited ("**Ben 7Road**")	Shareholder of the Company

(b) Loan to Ben 7Road

Movement of loan to Ben 7Road is as follows:

	2020 RMB'000	2019 RMB'000
At beginning of the year	2,747	2,687
Loans to Ben 7Road	—	—
Exchange realignment	(166)	60
At end of the year	2,581	2,747
Maximum outstanding amount during the year	2,747	2,747

On 12 October 2018, the Group and Ben 7Road entered into a loan agreement. Pursuant to the loan agreement, the Group granted a loan to Ben 7Road which was unsecured, interest-bearing at 5% per annum and repayable on 11 October 2020. On 9 October 2020, a supplemental loan agreement was entered into between the Group and Ben 7Road which extended the date of loan repayment to 11 October 2021.

35 RELATED PARTY TRANSACTIONS (continued)

(c) Loans to key management

Movement of loans to key management is as follows:

	2020 RMB'000	2019 RMB'000
At beginning of the year	15	45
Loans to key management	—	—
Repayments from key management	(15)	(30)
At end of the year	—	15

Loans to key management of the Group were unsecured, interest-free and repayable on demand.

(d) Key management compensation

	2020 RMB'000	2019 RMB'000
Wages, salaries and bonuses	7,523	5,891
Other social security costs and housing benefits and other employee benefits	397	324
Pension costs — defined contribution plans	60	338
Share-based compensation	—	6,732
	7,980	13,285

36 CONTINGENCIES

On 27 April 2020, Guangzhou Zhang Ying Kong Information Technology Company Limited ("**Zhang Ying Kong**"), a subsidiary of Digital Hollywood Interactive Limited ("**Digital Hollywood**") litigated against Shenzhen Qianhai Huanjing Network Technology Co., Ltd. (深圳市前海幻境網絡科技有限公司) and Shenzhen 7Road Technology Co., Ltd. (深圳第七大道科技有限公司), both subsidiaries of the Group, concerning a game cooperation agreement (the "**Litigation**"). The Litigation was filed to the People's Court of Haizhu District, Guangzhou, the PRC on 18 May 2020 and was subsequently transferred to the Guangzhou Intellectual Property Court on 30 June 2020. The first trial of the Litigation was on 2 April 2021 and no judgment has been made yet. The Group has already engaged lawyers to act for its defense. As the Company believes that Zhang Ying Kong and other subsidiaries of Digital Hollywood breached the contracts in advance in respect of a series of cooperation with the Group, while the Group has consistently performed its obligations under the contracts, the Group's claims will have a greater chance to be supported. Therefore, the management believes that the results of the Litigation will not have any material adverse effect on the consolidated financial statement. Subject to any further development of the Litigation, the actual effect might differ from above expectations.

37 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiary	Country of incorporation/ establishment	Date of incorporation/ establishment	Particulars of issued and paid-in capital	Equity interest held as at 31 December		Principal activity
				2020	2019	
Directly held by the Company						
7Road Fun Limited	The BVI	15 September 2017	US$1	100%	100%	Investment holdings
7Road International Group Limited	The BVI	12 May 2015	US$1	100%	100%	Publication of online games
Osmanthus Vale	The BVI	27 June 2019	US$100	100%	100%	Investment holdings
Indirectly held by the Company						
7Road HK Digital Limited (香港第七大道數位有限公司)	Hong Kong	9 October 2017	HK$1	100%	100%	Investment holdings
Qianhai Huanjing[@] (Note a)	The PRC	12 July 2015	RMB269,320,000	100%	100%	Online game development, promotion and management
Shenzhen 7Road[@] (Note a)	The PRC	22 January 2008	RMB10,000,000	100%	100%	Online game development, promotion and management
Shenzhen Qianqi[@] (Note a)	The PRC	28 November 2013	RMB26,000,000	100%	100%	Online game development, promotion and management
Huoerguosi 7Road[@] (Note a)	The PRC	27 November 2015	RMB10,000,000	100%	100%	Online game development, promotion and management

37 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Country of incorporation/ establishment	Date of incorporation/ establishment	Particulars of issued and paid-in capital	Equity interest held as at 31 December 2020	2019	Principal activity
Indirectly held by the Company (continued)						
7Road International HK Limited (第七大道國際(香港)有限公司)	Hong Kong	3 June 2015	US$1	100%	100%	Publication of online games
7Road International Pte. Ltd.	Singapore	28 September 2015	Singaporean Dollar 1	100%	100%	Publication of online games
Wuxi 7Road Technology Co., Ltd.# (無錫第七大道科技有限公司)	The PRC	18 July 2019	RMB1,034,846,300	100%	100%	Online game development, promotion and management
Wuxi 7Road Culture and Media@ (Notes a and b)	The PRC	25 July 2019	RMB5,000,000	–	100%	Culture media
Wuxi 7Road Intellectual Property Services Co., Ltd. (無錫市七道知識產權服務有限公司)@	The PRC	31 July 2019	RMB1,000,000	100%	100%	Intellectual property agency
Malus Vale Holdings Limited	The BVI	21 December 2018	US$100	100%	100%	Investment holdings
Shanghai Xinla#	The PRC	6 January 2016	RMB501,000,000	100%	100%	Online game development, promotion and management
Hangzhou Shengfeng@	The PRC	6 August 2015	RMB4,000,000	100%	100%	Online game development, promotion and management
Huoerguosi 39 Mutual Entertainment Network Technology Co., Ltd. (霍爾果斯三九互娛網絡科技有限公司)@	The PRC	1 November 2016	RMB10,000,000	100%	100%	Online game development, promotion and management
Shanghai Yingling@	The PRC	5 June 2017	RMB6,400,000	53.33%	53.33%	Mobile game development

37 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Country of incorporation/ establishment	Date of incorporation/ establishment	Particulars of issued and paid-in capital	Equity interest held as at 31 December		Principal activity
				2020	2019	
Indirectly held by the Company (continued)						
Shanghai Chaozi Network Technology Co., Ltd. (上海巢淄網絡科技有限公司)@	The PRC	4 December 2017	RMB8,000,000	–	80%	Online game development, promotion and management
Wuxi Zhongyao Network Technology Co., Ltd. (無錫中堯網絡科技有限公司)@	The PRC	26 January 2018	RMB1,000,000	100%	100%	Mobile game development
Shanghai Lingsu Network Technology Co., Ltd. (上海淩素網絡科技有限公司)@	The PRC	16 July 2018	RMB1,000,000	100%	100%	Online game development, promotion and management
Shanghai Nongyou@	The PRC	8 August 2018	RMB7,000,000	70%	70%	Mobile game development
Shanghai Xifeng Network Technology Co., Ltd. (上海翕風網絡科技有限公司)@	The PRC	22 October 2018	RMB1,000,000	100%	100%	Mobile game development and operation
Shanghai Tianxun Network Technology Co., Ltd. (上海天勛網絡科技有限公司)@	The PRC	7 November 2018	RMB1,000,000	100%	100%	Mobile game development
Shanghai Qizhou Network Technology Co., Ltd. (上海奇驟網絡科技有限公司)@	The PRC	10 December 2018	RMB1,000,000	100%	100%	Online game development, promotion and management
Shanghai Shengpi Network Technology Co., Ltd. (上海聖辟網絡科技有限公司)@	The PRC	17 January 2019	RMB1,000,000	100%	100%	Mobile game development
Hawthorn Vale Holdings (Hong Kong) Limited	Hong Kong	18 January 2019	HK$609,000,000	100%	100%	Investment holdings
Poplar Vale Holdings Limited	The BVI	4 July 2019	US$510,000	51%	51%	Publication of online games

37 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Country of incorporation/ establishment	Date of incorporation/ establishment	Particulars of issued and paid-in capital	Equity interest held as at 31 December 2020	Equity interest held as at 31 December 2019	Principal activity
Indirectly held by the Company (continued)						
Wuxi Longshan 7Road Investment Management Co., Ltd. (無錫龍山七道投資管理有限公司)@	The PRC	18 March 2020	RMB10,000,000	80%	–	Investment holdings
Hainan 7Road Technology Co., Ltd. (海南七道科技有限公司)@	The PRC	12 November 2020	RMB5,000,000	100%	–	Mobile game development
Jinhualiehuo Information Technology Co., Ltd (金華烈火信息科技有限公司)@	The PRC	29 September 2020	RMB1,000,000	100%	–	Mobile game development
Shanghai Zhuiman Huyu Technology Company Limited (上海追漫互娛科技有限公司)@	The PRC	14 October 2016	RMB14,300,000	100%	–	Mobile game development and operation
Wuxi Tianjun Network Technology Co., Ltd (無錫天君網絡科技有限公司)@	The PRC	3 December 2019	RMB1,000,000	51%	51%	Dormant
Yichun Kulong Network Technology Co., Ltd (宜春酷龍網絡科技有限公司)@	The PRC	20 December 2019	RMB1,000,000	100%	100%	Dormant
Yichun Qidao Technology Co., Ltd (宜春七道科技有限公司)@	The PRC	14 January 2020	RMB1,000,000	100%	–	Investment holding
Shanghai Balibali Business Management Co., Ltd (上海叭哩叭哩企業管理有限公司)@	The PRC	9 December 2019	RMB500,000	51%	51%	Mobile game development
Wuxi Hongwei Network Technology Co., Ltd (無錫鴻偉網絡科技有限公司)@	The PRC	4 September 2019	RMB1,530,000	51%	51%	Investment holding

\# The Company is established as a wholly foreign-owned enterprise in the PRC.

@ The Company is a limited liability company in the PRC.

Notes:

(a) The Group does not have legal ownership in equity interests of these subsidiaries, as the PRC regulations restrict foreign ownership of companies that provide value-added technology services, which include activities and services operated by the Group. In order to enable certain foreign companies to make investments into the business of the Group, the wholly-owned subsidiary of the Company, Qianhai Huanjing, has entered the Contractual Arrangements with Shenzhen 7Road and its equity holders, which enable Qianhai Huanjing and the Group to control the business under Shenzhen 7Road and its subsidiaries.

(b) On 1 January 2020, the Group entered into capital injection agreement with Shaoxing Shangyusaihe, an independent third party of the Group. Pursuant to the capital injection agreement, the Group injected another RMB1,500,000 into Wuxi 7Road Culture and Media and Shaoxing Shangyusaihe injected RMB2,500,000 into Wuxi 7Road Culture and Media, and the share capital of Wuxi 7Road Culture and Media was increased to RMB5,000,000 accordingly. As a result of these capital injections, the equity interest of Wuxi 7Road Culture and Media held by the Group was diluted from 100% to 50%, and the transaction was accounted for as deemed disposal of partial interest in a subsidiary resulting in loss of control. Upon completion of the disposal, Wuxi 7Road Culture and Media became a joint venture of the Group. Details of the disposal are disclosed in Note 19.

(c) The Group does not have non-controlling interests that are material to the Group.

37 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To provide details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

38 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	2020 RMB'000	2019 RMB'000
ASSETS		
Non-current asset		
Investments in subsidiaries (Note a)	3,974,626	3,988,944
Current assets		
Prepayment and other receivables	321,727	973,943
Financial assets at fair value through profit or loss	10,724	46,350
Cash and cash equivalents	52,159	1,578
	384,610	1,021,871
Total assets	4,359,236	5,010,815
LIABILITY		
Current liability		
Trade and other payables	303,936	1,170,119
EQUITY		
Share capital	90	86
Share premium	4,094,146	3,802,757
Reserves	54,372	37,350
(Accumulated losses)/retained earnings	(93,308)	503
Total equity	4,055,300	3,840,696
Total equity and liability	4,359,236	5,010,815

The statement of financial position of the Company was approved by the Board of Directors of the Company on 31 August 2021 and was signed on its behalf:

Meng Shuqi	**Li Zhengquan**	**Yang Cheng**
Director	*Director*	*Director*

38 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(a) Shares held for RSU Scheme

Details of the shares held for RSU Scheme are disclosed in Note 27.

(b) Reserve movement of the Company

	(Accumulated losses)/retained earnings RMB'000	Other reserve RMB'000
At 1 January 2019	(4,993)	19,658
Profit for the year	5,496	—
Currency translation differences of foreign operations	—	17,692
At 31 December 2019	503	37,350
Loss for the year	(93,811)	—
Currency translation differences of foreign operations	—	17,022
At 31 December 2020	(93,308)	54,372

39 EVENTS AFTER THE REPORTING PERIOD

On 7 November 2020, the Company and certain vendors (collectively, the "**Vendors**"), each an independent third party, entered into a conditional sales and purchase agreement (the "**SPA**") in relation to the acquisition of the entire issued share capital of Locojoy HongKong International Limited for an aggregate consideration of RMB1,183,650,100, which would be satisfied by cash and the allotment and issuance of consideration shares subject to the terms of the SPA. On 28 February 2021, the Company and the Vendors entered into a supplemental agreement to the SPA, pursuant to which the long stop date was extended from 28 February 2021 to 31 March 2021. On or around 9 July 2021, the Company received a written notice from the Vendors to terminate the SPA and the consideration of RMB20 million paid by the Company to the Vendors pursuant to the SPA was returned to the Company. Accordingly, the SPA has been terminated as at the date of this annual report. Details of the SPA and its termination are set out in the announcements of the Company dated 9 November 2020, 11 November 2020, 30 November 2020, 30 December 2020, 1 March 2021 and 9 July 2021, respectively.

On 1 April 2021, the Board resolved that the Group will start to enter into the business of provision of cloud computing services as an additional business activity of the Group. During the period from 1 April to 23 April 2021, Shanghai Lingsu Network Technology Co., Ltd. (an indirect wholly-owned subsidiary of the Company) purchased 4,010 sets of display cards, 200 pieces of server accessories and 531 sets of host from Shanghai Buxiong Industrial Co., Ltd. at a total consideration of approximately RMB80 million; On 9 May 2021, Wuxi 7Road (an indirect wholly-owned subsidiary of the Company) purchased 5,500 sets of VIP cards and 1,800 sets of host units from Shanghai Buxiong Industrial Co., Ltd. at a total consideration of approximately RMB127 million. Details of the asset acquisitions are set out in the announcement dated 9 May 2021.

On 26 April 2021, Shanghai Xinla (an indirect wholly-owned subsidiary of the Company) entered into an agreement with Cloud Live Technology Group Co., Ltd. to acquire the entire equity interest in the Beijing Meimai Technology Co., Ltd. ("**Beijing Meimai Technology**") from Cloud Live Technology Group Co., Ltd. at a consideration of RMB10 million. Beijing Meimai Technology, was established in the PRC and is principally engaged in the development of sandbox games. Details of the acquisition are set out in the announcement dated 26 April 2021.

Appendix: Environmental, Social and Governance Report

ABOUT THIS REPORT

Reporting Period and Scope

We are pleased to present the Environmental, Social and Governance ("**ESG**") report (the "**Report**") of the Group. This Report comprises of our ESG policies, approaches, objectives, performances and achievements for the year ended 31 December 2020 (the "**Reporting Period**"). The scope of the Report covers the performances regarding to the subject areas and aspects for environmental and social of our principal place of business in Wuxi and our offices in Shanghai and Shenzhen during the Reporting Period (unless otherwise stated).

Reporting Standard

This Report has been prepared in accordance with the disclosure requirements of the ESG Reporting Guide in Appendix 27 to the Listing Rules. For more information regarding corporate governance, please refer to the "Corporate Governance Report" section included in our Annual Report 2020.

Your Feedback

We appreciate our stakeholders' valuable opinions which boost our continuous improvement. Should you have any feedback on this Report and our sustainability performances, you are welcome to email us at ir@7road.com.

ESG RISK MANAGEMENT

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for determining and evaluating the Group's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The Group has adopted appropriate policies and procedures to evaluate and improve the functions of risk management and internal control.

ABOUT US

Business Overview

We are a leading online game developer and operator in China with a global reach. Since our inception in 2008, we have engaged in the R&D, operation and licensing of a number of popular web games. A sizable portion of revenue was derived from the overseas markets and our games have been published in more than 100 countries and regions. We also committed to bringing quality gameplay experience in various game formats to our users. In recent years, we have strategically expanded our business focuses to develop and operate the mobile games, which enjoy wide popularity among the players.

Awards and Recognitions

We were granted the "Outstanding Enterprise Award 2018" (2018年度優秀企業獎) by Guangdong Entertainment & Game Industry Association in 2018.

We were granted the "Key enterprise of national cultural exports" (國家文化出口重點企業) by the Ministry of Commerce of China in 2017 and 2018.

Our game DDTank (全民彈彈堂) was awarded the "Original Game Fine Publishing Project" (原創遊戲出版精品) by the State Administration of Press, Publication, Radio, Film and Television and obtained the "Best Jinyao Award of the Year" (年度最佳金耀獎) issued by 3367 mobile games in 2017.

Our game Novoland The Castle in the Sky (九州 • 天空城) was awarded the "Original Game Fine Publishing Project" (原創遊戲出版精品) by the State Administration of Press, Publication, Radio, Film and Television in 2016.

Web game Demi-Gods and Semi-Devils (天龍八部頁遊) obtained the Golden Plume Awards (金翎獎) in 2016.

The Company was awarded the "2014 Top 10 Game Enterprises for Overseas Expansion in China" (2014年度中國十大海外拓展遊戲企業), and Wartune (神曲2) obtained the "Top-Ten Most Popular Webpage Game in 2014" (2014年度十大最受歡迎網頁遊戲) in 2014.

Our Milestones

2008 Shenzhen 7Road was established in the PRC in January.

2009 DDTank (彈彈堂), our first online game and one of our flagship titles, was launched in the PRC in March.

2011 Our RPG online game and one of our flagship titles, Wartune (神曲), was launched in the PRC in December.

2013 Wartune (神曲) received the "Facebook Staff Favorites Recognition" in July.

2016 The mobile game Wartune Heroes (神曲之符文英雄) was launched in the PRC in July.

2017 The mobile game DDTank (mobile) (彈彈堂(手遊)) was launched in the PRC in April.

2018 The Company listed on the Stock Exchange in July.

2019 The Company completed the acquisition of Osmanthus Vale Holdings Limited and its subsidiaries in October. Please refer to pages 19 to 24 in the 2019 annual report.

2019 The Company was nominated for "The Key Enterprise for National Cultural Export 2019–2020" (二零一九至二零二零年度國家文化出口重點企業).

2020 The Company launched the 2D mobile game Alice Closet (愛麗絲的衣櫥).

2021 The Company was nominated for "The Key Enterprise for National Cultural Export 2021–2022" (二零二一至二零二二年度國家文化出口重點企業), the project of Alice Closet (愛麗絲的衣櫥) was selected as a key project.

VISION

Our vision is to become the respectful leader in the game industry.

OBJECTIVE

Our objective is to create unique and excellent boutique games worldwide.

OUR SUSTAINABLE DEVELOPMENT POLICY

We are a leading global online game developer and operator, with fast-growing in-house development capabilities for web games. In recent years, we have strategically expanded our business focuses to develop and launch mobile games by enhancing in-house development capabilities. This has also reflected our commitment to sustainable development. The Group is committed to ensuring business continuity, while sparing no effort in integrating environmental, social and management principles into our business administrative practices, which has produced a positive impact on the environment and the entire community.

As a responsible corporate citizen, we have formulated different policies on ESG and other issues to advance and manage matters relating to social responsibility, such as product responsibility, labor standards, environmental protection, health and safety, and supply chain management, so as to guide the Group and our business partners in putting sustainable development into practice. The relevant policies and measures and our sustainable development performance in all respects can be found in the corresponding sections of the Report.

STAKEHOLDER ENGAGEMENT

Our stakeholders mainly include employees, customers, suppliers, business partners, shareholders, the government and, in a broad sense, the community. We are firmly convinced that our sustainable development benefits from the unremitting support and trust of stakeholders. We listen to the voices of stakeholders and respond to their needs properly through a range of communication channels such as meetings, interviews, hotlines, official websites, WeChat public accounts, emails, so as to maintain a close and harmonious relationship with them and accordingly achieve long-term success.

Stakeholder Engagement

During the Reporting Period, stakeholder engagement has been conducted to understand stakeholders' viewpoints towards our environmental, social and governance measures. We have identified 22 aspects that have significant impacts to our business:

Workplace quality

1. Diversification and anti-discrimination
2. Employee relations
3. Occupational health and safety
4. Training and Development
5. Anti-child labor and forced labor
6. Employee benefits

Environmental protection and green operations

7. Greenhouse gas emissions
8. Exhaust emissions
9. Electricity and water saving
10. Resource consumption
11. Waste handling
12. Green procurement

Operational practices

13. Supplier management
14. Suppliers' environmental and social performance assessment
15. Anti-fraud and anticorruption
16. Disaster emergency plan

Business operations

17. Game health and safety
18. Protection of players' data
19. Product responsibility
20. Players' satisfaction
21. Intellectual property

Contribution to society

22. Charitable donations

After the stakeholder engagement survey and related assessments, among the above, we believe the material aspects include:

ESG Categories	Material Aspects	Sections in this Report
Workplace quality	3. Occupation health and safety	Our commitment to employees
	4. Training and development	Our commitment to employees
Business operations	17. Game health and safety	Players' health and safety
	18. Protection of players' data	Protect personal data privacy
	20. Players' satisfaction	Players' satisfaction
	21. Intellectual property	Intellectual property

We strive to ensure proper measures on the most significant issues are addressed adequately throughout our business activities.

OUR COMMITMENT TO EMPLOYEES

We hold a firm belief that our people are essential to the Group's development and success. Therefore, we attach great importance to talent acquisition by scouting for people passionate in game development and operation. Recruitment channels include internal referral, campus recruitment, online recruitment, talent market and head hunters. In the selection process, we adhere to the principle of fairness, openness and justice to the greatest extent. What we are mostly concerned with are candidates' competencies and qualifications, instead of their age, gender, physical condition, marital status, race, nationality and religion.

We hunger for creative, energetic and passionate talents to boost our game business development. We also need technical and professional game cravers to keep improving our quality standards.

We conduct review regularly to ensure our Company complies with all relevant laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

Employee overview

As at 31 December 2020, we had 346 employees and all of whom were based in the PRC. The average age of our employees was approximately 30 years old. Male and female employees accounted for 71.6% and 28.4% of the total respectively.

The following table sets forth the number of our employees by function as at 31 December 2020:

Function	Number of Employees	% of total
Operation	89	25.72
R&D	186	53.76
Administration	71	20.52
Total	346	100

Staff Development and Training

In addition to sourcing for talents, we also acknowledge the importance of nurturing them by offering abundant opportunities in development and training, in the hope that their talent can be fully unlocked, thereby benefit the Group's continual growth and success in return.

We have a sound performance management system under which regularly-scheduled comprehensive and conduct the timely appraisals of staff and an annual comprehensive performance evaluation. After the annual performance evaluation is conducted, employees must work with their line managers to set performance targets. We encourage line managers to communicate with their staff from time to time and give constructive feedbacks to help them grow.

Employees are given equal opportunities for promotion which is determined based on the results of their performance evaluation. The Group has also put in place promotion mechanisms for internal competition among the employees. Employees may apply for competitive promotion provided that they meet the relevant years of service and performance requirements and that they have no records of misconduct and are in line with the Group's corporate culture and values. This will accordingly stimulate the initiative of excellent employees, conducive to selecting and cultivating the talents.

Besides, recognising the significance of training such that we are able to catch up with the fast-growing internet industry and the everchanging market, we establish training platforms to train and nurture our employees.

We have four major programs in employee training: new employee training, high potential talent training, leadership training and professional skills upgrading.

- New employee training: In 2020, we have organized 80 training sessions for our new employees. The training sessions include the introducing of our culture and product philosophy, business objectives, management system and team behavior norms. New employee training aims to help our new employees to integrate into our team and get familiar with their works.

- High potential talent training: High potential talent training targets on the employees with relatively high personal development potential. Through offline business practice, communication and sharing, It can improve the basic management ability and personal comprehensive quality of these employees. High potential talent training reserves talents for our future managements.

- Leadership training: In 2020, due to the pandemic and other factors, external experts were not invited for a leadership training session to improve our management's understanding of leadership. Meanwhile, management regular practices (such as quarterly business meetings, organizational atmosphere survey and reporting) were adopted to improve our management's personal leadership skills.

- Professional skills upgrading: In 2020, we also organized our internal business experts for attending the professional skills training and sharing for a total of 10 times.

Caring our talents

Being a technology-based enterprise, we understand that human capital is our foremost property. Therefore, we strive to attract and retain talents by granting them competitive remuneration packages and benefits, together with creating a harmonious working atmosphere through a wide range of staff activities and events.

Strictly abiding by applicable laws and regulations including The Labor Law of the PRC (《中華人民共和國勞動法》), The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Regulation on the Administration of Housing Accumulation Funds (《住房公積金管理條例》), we provide employees in the PRC with social insurances which cover endowment, unemployment, medical, maternity and work-related injury, and housing provident fund. All employees are granted bereavement leave, marital leave, medical leave and maternity leave. Other benefits include:

Traditional holiday and women's day welfare, marriage and birthday gifts, club activities, afternoon tea breaks, meals and travel allowances.

Furthermore, we care about employees' work-life balance and organize an array of activities on a regular basis, for instance, themed birthday parties, clubs, sports activities and festive events. These activities can strengthen the bonding and create a harmonious relationship among employees and between the Group and employees.

We also care about employees' opinions. We have set up a number of communication channels, ranging from meetings to progress reports to WeChat and to email. Every one of us is welcomed to express his/her views and concerns through these channels.

Highlight of staff activities

1 Festival activities
2 New employee onboarding
3 Sports club activities
4 Technical training
5 Employee gathering

Occupational Health and Safety

The Group is committed to providing employees with a safe, healthy and comfortable working environment. We plant and place large quantities of green plants throughout the office and they are regularly maintained. At the same time, smoking is strictly prohibited in open areas at the office premises, and a complete set of fire-fighting facilities that meet fire protection standards are placed at a prominent position. Clear guidelines for emergency exit routes are indicated in the office and fire inspections are regularly conducted to eliminate potential fire hazards. Strictly abiding by the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), the Group routinely uses different means of publicity to enhance the awareness of occupational diseases among employees, prevent and treat occupational diseases, and protect the health of employees and related rights and interests.

Aside from our endeavors in environmental safety, we pay greater attention to the health of our employees. The Group purchases for them critical illness plan and personal accident insurance. As at 31 December 2020, no incidence of any work-related injury or fatality was identified by the Group.

While Coronavirus Disease 2019 ("**COVID-19**") has continued to spread around the world since 2020, a series of necessary hygiene and epidemic prevention measures have been implemented by the Group to mitigate the potential impact of the COVID-19 outbreak, including implementation of prevention and control policies enacted by the relevant governmental authorities, provision of free anti-epidemic Supplies and adopt flexible work-from-home measures to protect the health and safety of our employees.

Labor Standards

Our employment practices are in compliance with applicable laws and regulations. Strictly abiding by the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and other laws and regulations, the Group prohibits the employment of child labor and forced labor. Upon joining, an employee's data file, including identity and age, will be reviewed thoroughly to ensure that there is no underage work. During the review, any child or forged identity data found will be handled in accordance with the law. The Group strictly abides by relevant laws and regulations of the jurisdiction in the place of operation, signing labor contracts with employees according to law and pays social insurance and protects the personal privacy of employees in strict accordance with provisions.

In addition, our staff handbook has set out details concerning the working hours, overtime, leave and dismissal. The Group's implementations are carried out in a unified manner according to standard working hours to ensure that the working hours of employees are reasonable. Employees are not forced to work and, if overtime is required, they need to obtain the approval in advance and will receive paid leave afterwards. In the case of forced labor, employees have the right to appeal to the Group's Human Resources Department.

SUPPLIER MANAGEMENT

We have been committing ourselves to be a high quality, environmental friendly and responsible game developer. We hope our suppliers and business partners to operate in a consistent manner and demonstrate best practices in connection with environmental and social matters.

We have established long-term relationships with numerous platforms, advertisers and suppliers around the world. We have stated in our internal policy that all personnel acting on our behalf must not receive rebates, gifts or favors of any kind which could influence a business decision. We also established supplier code of conduct indicating our expectations towards our suppliers and business partners in terms of anti-corruption, product and service quality, environmental protection and occupational health and safety. Such code of conduct has been circulated to our suppliers and business partners.

INTELLECTUAL PROPERTY

We are committed to protecting the achievements of our research and development team. To this end, we have established the Intellectual Property Management System under which standard work programmes are formulated in respect of applying for and managing intellectual property rights and strengthening the protection of intellectual property and this can effectively protect the intangible assets of the Group. The Group's intellectual property included copyrights, trademarks, patents, domain names, trade secrets and other rights conferred by (i) the Patent Law of the People's Republic of China (《中華人民共和國專利法》), (ii) the Trademark Law of the People's Republic of China (《中華人民共和國商標法》), (iii) the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), (iv) the Measures for the Administration of Internet Domain Names in China (《中國互聯網域名管理辦法》), (v) the Law of the People's Republic of China Against Unfair Competition (《中華人民共和國反不當競爭法》) and other applicable laws and regulations as well as other rights relating to the protection of games, software, designs, new technologies, techniques, etc.

We attach great importance to confidentiality in protecting intellectual property. All interested parties are prohibited to divulge or provide relevant information to others in the process of product development and creation. In accordance with the "Measures for the Administration of Content Self-review by Internet Cultural Business Entities" (《網絡文化經營單位內容自審管理辦法》), our self-inspection system will ensure that all products comply with our intellectual property measures and relevant regulations.

PLAYERS' HEALTH AND SAFETY

We are highly concerned about the health and safety of our players. We deliver health and safety messages to our players in games and suggest taking rest after playing a certain period of time. We tend to encourage our players to enjoy our games rather than become addicted to them. The Group strictly complies with the Standards Regarding the Development of Anti-addiction System on Online Games of the State and actively guides adolescent players to cultivate a green habit of game playing. In addition, to comply with the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (《關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知》) in the PRC, we have established a real-name registration system in our online games.

HEALTH NETWORK

As a company with focus on the internet business, we have the responsibility to uphold and strengthen a healthy network culture.

For our game development business, we strictly abide by the Measures for the Administration of Online Games (《網絡遊戲管理辦法》) and other applicable laws and regulations. In view of this, we have built a professional content review team. There are professional content reviewers on the team responsible for close scrutiny to ensure that the game elements, including names, backgrounds, sound effects, maps, scenes, character designs, building designs, prop designs and features, do not contain any legally prohibited or improper wordings and materials, neither should any pornography, gambling, violence and abetment be promoted.

PLAYERS' SATISFACTION

To boost creativity among our game talents so as to create more innovative and fascinating games, we ought to understand players' pattern and interests to cater to their needs. As a result, we put great store by enhancing players' satisfaction through listening and responding to their opinions through various online and offline channels including online forum, customer service hotline, mailbox and instant chat in games. Our dedicated customer service team will handle players' concerns and respond to them in a timely manner. They can also reach us at our social media accounts, such as Sina Weibo and WeChat, to seek game assistance and guidance. For games that we license to our distribution publishing partners, certain customer service will be provided by such partner.

PROTECT PERSONAL DATA PRIVACY

We take privacy and confidentiality of our user's data, such as players' account details and payment information seriously. No sensitive personal data (such as ID card or credit card information) are stored on our server. Our employees cannot access player's information without authorization.

In addition, we may subject to the threat of cyber attacks and the risks of the loss and leakage of data. To minimize these risks, we have adopted a series of data security measures, such as intrusion detection, firewalls access authorization, password and data transmission encryption, so that data are stored at least in two different locations on our local internal server and remote cloud system and further backup is implemented in our disaster recovery system.

ADVERTISING

We ensure the compliance, accuracy and authenticity of all published materials, including press releases, labels, articles, and web contents, in accordance with the Advertising Law of the People's Republic of China.

ANTI-CORRUPTION

The Group's commitment to cracking down on unethical business practices, including bribery, fraud and corruption can be reflected in our "Anti-Corruption Management Policy". Employees should report to us any suspected misconduct by phone or mail. Our internal audit department will enquire into the case carefully and implement correction measures in a professional and timely manner. Along with the above, code of ethics is also encapsulated in the employee handbook. We will make our best efforts to ensure employees' attention to the code and make it part of our everyday activities in order to create a positive corporate culture placing integrity and honesty on a high priority. During the Reporting Period, there was no litigation against the Group or its employees concerning corruption, bribery, fraud, extortion and money laundering.

OUR COMMITMENT TO THE COMMUNITY

As a corporate citizen, we have been actively fulfilling our social responsibility, sparing no effort to participate in various communal activities. We are not only engaging in building the community through conventional channels such as charity activities and volunteer activities, but are also fulfilling our social responsibility by bringing industry characteristics into play, continuously making a positive influence on the community. Going forward, the Group will continue to perform its social responsibility and constantly step up investments in communal public welfare undertakings, giving back to society through diversified channels.

Inputs toward the future development of industry talents

As an industry leader, we attach great importance to nurturing the next generation. Through a variety of forms, we provide young people interested in the game industry with platforms and opportunities to gain an understanding of and entry into the game industry.

Charity

The Group is enthusiastic about charity, showing concern for disadvantaged communities and making donations from time to time.

OUR COMMITMENT TO ENVIRONMENT

Due to the nature of our business, our operation activities have no significant impact on the environment and natural resource. In spite of that, we comply with any applicable local laws and regulations related to environmental protection. Also, we infuse environmentally friendly strategies into our daily operations to constantly conserve resources and reduce emissions.

Taking up the role as a global corporate citizen, we are highly concerned about our impact on the environment and pledge to strike a balance between business development and environmental protection. In stringent compliance with applicable laws and regulations including but not limited to The Environmental Protection Law of the PRC, we have incorporated environmentally friendly measures regarding emission reduction and resource efficiency into daily operation. We will review and refine the policy from time to time and we've optimized the following measures to push every one of us into routinising green initiatives to live a greener life:

- encouraging employees to take public transportation in place of private vehicles;
- maintain proper lighting in our working areas and turn off unused electric equipment in time;
- selling electronic waste (including computers, servers and phones) to qualified second-hand buyers to extend their life cycles;
- implementing waste separation measures in our working areas; and
- closely monitoring the amount of general refuse produced, predominantly paper and food waste, by sample weighing to optimize waste reduction measures.

We only trace air pollutant emissions generated by the company cars are involved in the course of business of the Group and that the impact on the environment and natural resources is minimal. Therefore, no disclosure of air pollutant emissions is made in the Report.

A small amount of electronic waste emissions is involved in the business of the Group. In terms of non-hazardous waste, paper use in the office is the major emission of the Group. During the Reporting Period, a total of approximately 541kg of paper was used (for 2019, approximately 534kg of paper was used). The Group remains committed to paper recycling. As for office waste such as waste batteries and printer cartridges, we have specific recycling bins for employees to collect.

During the Reporting Period, our electricity consumption was approximately 745,314 kWh (for 2019, our electricity consumption was approximately 442,510 kWh) and the annual per-capita electricity consumption was approximately 2,154.1 kWh (for 2019, our annual per-capita electricity consumption was approximately 797.3 kWh). The total amount of water consumed in 2020 was approximately 4,004 tonnes and the annual per-capita water consumption was approximately 11.6 tonnes (for 2019, our total amount of water consumed in the year was approximately 3,122 tonnes and the annual per-capita water consumption was approximately 5.6 tonnes). All the water consumed by the Group comes from the municipal pipeline network, thus no issue relating to water supplies was identified.

RESOURCE EFFICIENCY

The Group advocates environmental protection and energy conservation. To save natural resources, we have taken the following actions:

- Emails, instant communication tools and WeChat at Work are used and employees are not encouraged to print paper. A paperless process is now fully adopted for managing employee attendance. Necessary documents are printed. Double-sided printing and paper recycling are being promoted.

- Priority is given to energy-saving lighting and other energy-saving appliances to reduce electricity consumption.

- Although the Group's business does not belong to a high-water consumption industry, we are still actively encouraging employees to treasure water in the face of a global crisis of scarce water resources. For example, we use automatic sensor faucets in washrooms to reduce water consumption.

- Although our Group's business does not involve packaging materials, recyclable materials are used as far as possible to comply with the principle of recycling.

- To reduce our energy consumption, air conditioners are turned off during non-working hours or when the office occupancy rate is low. In non-summer and non-winter seasons like spring and autumn, the use of air conditioners is suspended and maintain reasonable room temperature to reduce exhaust gas and electricity consumption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX

Subject Areas, aspects, general disclosure and key performance indicators ("KPIs")		Section	Page Number
A. Environmental			
Aspect A1: Emissions *General Disclosure* Information on: (a) the policies; and (b) compliance with the relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Our Commitment to Environment and Resource Efficiency	177
KPI A1.1	The types of emissions and respective emission data.	Our Commitment to Environment	177
KPI A1.2	Greenhouse gas emissions in total and intensity.	The Group's does not generate significant amount of greenhouse gas	N/A
KPI A1.3	Total hazardous waste produced and intensity.	The Group does not generate significant amount of hazardous waste	N/A
KPI A1.4	Total non-hazardous waste produced and intensity.	Our Commitment to Environment	177
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Resource Efficiency	178
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Our Commitment to Environment	177
Aspect A2: Use of Resources *General Disclosure* Policies on the efficient use of resources, including energy, water and other raw materials.		Our Commitment to Environment and Resource Efficiency	177
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Our Commitment to Environment	177
KPI A2.2	Water consumption in total and intensity.	Our Commitment to Environment	177
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Our Commitment to Environment	177
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Not disclosed for this reporting period	N/A
KPI A2.5	Total packaging material used for finished products and with reference to per unit produced.	The Group does not involve any packaging material.	N/A
Aspect A3: Environment and Nature Resources *General Disclosure* Policies on minimizing the issuer's significant impact on the environment and natural resources.		The Group does not generate significant impact on the environment and natural resources.	N/A
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Group does not generate significant impact on the environment and natural resources.	N/A

Subject Areas, aspects, general disclosure and key performance indicators ("KPIs")	Section	Page Number
B. Social		
Employment and Labor Practices		
Aspect B1: Employment	Our Commitment to Employees	171
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.		
KPI B1.1 Total workforce by gender, employment type, age group and geographical region.	Our Commitment to Employees — Employee Overview	171
KPI B1.2 Employee turnover rate by gender, age group and geographical region.	Not disclosed for this Reporting Period	N/A
Aspect B2: Health and Safety		
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Our Commitment to Employees	171
KPI B2.1 Number and rate of work-related fatalities.	Our Commitment to Employees — Occupational Health and Safety	174
KPI B2.2 Lost days due to work injury.	Not applicable	N/A
KPI B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.	Our Commitment to Employees — Occupational Health and Safety	174
Aspect B3: Development and Training		
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Our Commitment to Employees — Staff Development and Training	171
KPI B3.1 The percentage of employees trained by gender and employee category	Not disclosed for this Reporting Period	N/A
KPI B3.2 The average training hours completed per employee by gender and employee category.	Not disclosed for this Reporting Period	N/A
Aspect B4: Labor Standards		
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	Our Commitment to Employees — Labor Standards	174
KPI B4.1 Description of measures to review employment practices to avoid child and forced labor.	Our Commitment to Employees — Labor Standards	174
KPI B4.2 Description of steps taken to eliminate such practices when discovered.	Not Applicable	N/A

Subject Areas, aspects, general disclosure and key performance indicators ("KPIs")		Section	Page Number
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure		Supplier Management	175
Policies on managing environmental and social risks of the supply chain.			
KPI B5.1	Number of suppliers by geographical region.	Not disclosed for this Reporting Period	N/A
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supplier Management	175
Aspect B6: Product Responsibility			
General Disclosure			
Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Intellectual Property, Players' Health and Safety, Health Network, Players' Satisfaction and Protect Personal Data Privacy	175
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	The Group does not produce any physical products.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	The Group does not produce any physical products.	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property	175
KPI B6.4	Description of quality assurance process and recall procedures.	The Group does not produce any physical products.	N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Protect Personal Data Privacy	176
Aspect B7: Anti-Corruption			
General Disclosure			
Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Anti-corruption	176
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption	176
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption	176

Subject Areas, aspects, general disclosure and key performance indicators ("KPIs")		Section	Page Number
Community			
Aspect B8: Community Investment			
General Disclosure			
Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Our Commitment to the Community	177
KPI B8.1	Focus areas of contribution.	Not disclosed for this Reporting Period	N/A
KPI B8.2	Resources contributed to the focus area.	Not disclosed for this Reporting Period	N/A