Forgame Holdings Limited
雲遊控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00484

2019
Annual Report

Forgame

Forgame

CONTENTS

2	Corporate Information
4	Financial Highlights
5	Chairman's Statement
7	Report of Directors
46	Management Discussion and Analysis
62	Corporate Governance Report
79	Directors and Senior Management
87	Independent Auditor's Report
95	Consolidated Statement of Profit or Loss and Other Comprehensive Income
97	Consolidated Statement of Financial Position
99	Consolidated Statement of Changes in Equity
100	Consolidated Statement of Cash Flows
102	Notes to the Consolidated Financial Statements
172	Definitions
180	Appendix: Environmental, Social and Governance Report

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Mr. HAN Jun
(Chief Executive Officer)

Non-executive Directors

Mr. ZHANG Qiang *(Chairman)*
Ms. LIANG Na

Independent Non-executive Directors

Mr. WANG Dong
Mr. WONG Chi Kin
Mr. CUI Yuzhi

AUDIT AND COMPLIANCE COMMITTEE

Mr. WONG Chi Kin *(Chairman)*
Mr. WANG Dong
Mr. CUI Yuzhi

REMUNERATION COMMITTEE

Mr. WANG Dong *(Chairman)*
Mr. HAN Jun
Mr. WONG Chi Kin

NOMINATION COMMITTEE

Mr. ZHANG Qiang *(Chairman)*
Mr. CUI Yuzhi
Mr. WANG Dong

CORPORATE GOVERNANCE COMMITTEE

Mr. CUI Yuzhi *(Chairman)*
Mr. WONG Chi Kin
Mr. WANG Dong

AUTHORISED REPRESENTATIVES

Mr. ZHANG Qiang
Ms. LEE Ka Man

COMPANY SECRETARY

Ms. LEE Ka Man

LEGAL ADVISORS

As to Hong Kong law:
(in alphabetical order)

Davis Polk & Wardwell
18/F, The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

Sidley Austin
39/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Woo, Kwan, Lee & Lo
26/F, Jardine House
1 Connaught Place
Central
Hong Kong

As to Cayman Islands law:
(in alphabetical order)

Appleby
2206–19, Jardine House
1 Connaught Place
Central
Hong Kong

Walkers
Suite 1501–1507, Alexandra House
18 Chater Road
Central
Hong Kong

As to PRC law:

Jingtian & Gongcheng
34/F, Tower 3, China Central Place
77 Jianguo Road, Chaoyang District
Beijing
PRC

CORPORATE INFORMATION

AUDITOR

ZHONGHUI ANDA CPA Limited
Unit 701,7/F, Citicorp Centre,
18 Whitfield Road,
Causeway Bay,
Hong Kong

REGISTERED OFFICE

The offices of Osiris International Cayman Limited
Suite #4–210, Governors Square
23 Lime Tree Bay Avenue
P. O. Box 32311
Grand Cayman KY1-1209
Cayman Islands

CORPORATE HEADQUARTERS

Room 01–02, 60/F
International Metropolitan Plaza
68 Huacheng Avenue
Guangzhou
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16/F, Man Yee Building
60–68 Des Voeux Road Central
Central
Hong Kong

CAYMAN ISLANDS PRINCIPAL REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House — 3rd Floor
24 Shedden Road
P. O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

(in alphabetical order)

China Citic Bank, Guangzhou branch

China Citic Bank, Jiujiang branch

China Merchants Bank, Guangzhou branch

China Merchants Bank, Hong Kong branch

Industrial Bank, Jiujiang branch

Shanghai Pudong Development Bank, Hong Kong branch

INVESTOR RELATIONS

Christensen
16/F, Methodist House
36 Hennessy Road
Wan Chai
Hong Kong

COMPANY'S WEBSITE

www.forgame.com

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

00484

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year Ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000	RMB'000
Continuing Operations					
Revenue	**124,279**	129,440	346,466	361,564	511,539
Gross profit	**30,417**	81,749	222,281	72,549	171,414
(Loss)/profit for the year	**(244,445)**	(4,948)	68,648	(396,492)	(129,621)
Non-IFRSs Measures					
— (LBITDA)/EBITDA[3] for the year	**(216,558)**	(10,345)	105,319	(364,158)	(115,487)
— Adjusted (LBITDA)/EBITDA[4] for the year	**(161,966)**	31,037	58,561	(207,813)	(38,675)

Notes:

(1) Financial figures of continuing operations in 2019 and 2018 exclude relevant figures of the discontinued operation pursuant to the IFRS 5. Details are disclosed in note 12 and note 38(b) to the Financial Statement.

(2) Jianlicai Group was acquired in 2017 and disposed in 2019. The results for the year ended 31 December 2017 has not been restated to present the effect of the JLC Disposal.

(3) (LBITDA)/EBITDA means (loss)/earnings before interests, taxes, depreciation and amortisation.

(4) The Group defines adjusted (LBITDA)/EBITDA as (LBITDA)/EBITDA excluding share-based compensation, impairment of intangible assets arising from business combination, impairment of other receivables on disposal of investment in an associate, impairment of other receivables on disposal of investment in a subsidiary, changes in the value of investment at fair value through profit or loss, gain/(loss) on disposal of a subsidiary, gain on disposal of investment in an associate, gain on disposal of available-for-sale financial assets, impairment of investment in associates, impairment of available-for-sale financial assets, dividends from equity investments at fair value through other comprehensive income, loss on deregistration of subsidiaries and loss on transfer of investment in an associate to equity investments at fair value through other comprehensive income. For details of (LBITDA)/EBITDA and adjusted (LBITDA)/EBITDA, please refer to the section headed "Management Discussion and Analysis — Non-IFRSs Measures — EBITDA and Adjusted EBITDA" in this annual report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**149,788**	102,929	416,930	393,435	281,706
Current assets	**663,570**	886,711	1,106,452	768,382	1,243,405
Total assets	**813,358**	989,640	1,523,382	1,161,817	1,525,111
Equity and liabilities					
Total equity	**663,963**	847,687	1,181,417	1,058,110	1,444,726
Non-current liabilities	**22,614**	581	32,447	474	2,202
Current liabilities	**126,781**	141,372	309,518	103,233	78,183
Total liabilities	**149,395**	141,953	341,965	103,707	80,385
Total equity and liabilities	**813,358**	989,640	1,523,382	1,161,817	1,525,111

CHAIRMAN'S STATEMENT

OVERVIEW

2019 was a challenging year to navigate. Trade disputes between China and the US and increased regulatory requirements for the domestic internet finance industry added a layer of market uncertainty and impacted the related business segments of the Company. Despite the difficult operating environment, the Group managed to generate revenue of approximately RMB124 million from continuing operating activities for the year, which was basically in line with 2018.

In 2019, the revenue from the game business[1] and internet micro-credit business accounted for approximately 67% and 33% of the Group's overall revenue respectively, which were basically in line with last year. Annual revenue from the game business amounted to approximately RMB84 million. On the other hand, the Group extended its internet micro-credit business to the corporate loan business, adding to the existing personal loan business line, and recorded a total interest income of approximately RMB40 million for 2019.

OUTLOOK

In face of the impact of the Epidemic in January 2020, a number of provinces and cities in the PRC activated a level I response, which is the highest-level response that can be raised for major public health emergencies, and adopted various strict measures to curb the spread of the virus. After the Lunar New Year, all industries followed the guidelines from the Chinese government and postponed the date of resumption of work to combat the Epidemic. Strict requirements for epidemic prevention and control caused out-of-home consumption of the residents to fall significantly. Industries which are principally engaged in offering venues for offline crowd gathering have been most affected. While the online entertainment industry has benefitted from the fact that users are spending more time at home, other industries have been negatively affected to various degrees. In order to divert the pressure of operating costs, many SMEs resorted to redundancy and pay cuts as the contingency plan for survival.

The Group has not been immune to the severe national public health crisis and faces significant challenges ahead. (1) As the Group had shifted its business focus from online webgames to offline VR games in 2019, offline stores of Beijing Xigua under the Group were also severely affected by the Epidemic. Although the Group has formulated contingency measures[2] to mitigate the impact of the Epidemic, the operating environment has been clouded by uncertainties at this stage. (2) In relation to the internet micro-credit business, "Yunke" had to address a number of overdue loans it lent out during its rapid development in the past. Taking into account the past experiences and lessons, the Group will operate the corporate loan business with even more prudent measures and strengthen its internal risk management in the future.

Notes:

(1) Include online legacy game business and the virtual reality ("VR") game business.

(2) For details, please refer to the Company's announcement issued on 10 March 2020.

CHAIRMAN'S STATEMENT

The Group is of the view that the Epidemic will inevitably have an adverse impact on the business performance of many industries in the future, and thus affecting the consumer confidence and consumer preferences for a long period of time. The business environment will become challenging for the next few years. In order to better cope with the risks to the Group's business (including internet micro-credit business) from economic downturn, the Group will make certain operating adjustments.

We will go through the long and arduous journey with determination and perseverance. Looking ahead, despite the uncertainties and difficult domestic and foreign environment, the Group will adhere to the principle of "striving for long-term robustness" while learn from past experiences. By exploring new development model for the Group with open mindedness and innovation, the Group will evaluate potential projects or investments in a prudent manner when opportunities arise. With an aim to achieve sustainable development, the Group will aggressively explore more revenue sources, thereby delivering fruitful returns to the shareholders of the Company.

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, the management team, employees, business partners and customers of the Group for their continued support and contribution to the Group.

ZHANG Qiang
Chairman

Hong Kong, 28 August 2020

REPORT OF DIRECTORS

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

PRINCIPAL ACTIVITIES

The Group is principally engaged in developing and publishing domestic and overseas webgames, mobile games and VR games as well as providing internet micro-credit service in the PRC.

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 20 to the Financial Statements.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 95 to 96 of this annual report.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the sections headed "Financial Highlights", "Chairman's Statement" and "Management Discussion and Analysis" on page 4, pages 5 to 6 and pages 46 to 61 of this annual report, respectively.

Description of principal risks and uncertainties that the Group may be facing can be found in the sections headed "Report of Directors — Contractual Arrangements — F. Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks" and "Management Discussion and Analysis — Risks and Hurdles" on pages 27 to 30 and page 61 of this annual report, respectively. An analysis of the Group's performance during the year using financial key performance indicators is set out in the section headed "Management Discussion and Analysis" on pages 46 to 61 of this annual report. An indication of likely future development in the Group's business is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 5 to 6 and pages 46 to 61 of this report. In addition, the Group's environmental, social and corporate government report for the year ended 31 December 2019 (the "**Environmental, Social and Governance Report**") can be found in the appendix to this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

As at the Latest Practicable Date. There were no arrangement under which a Shareholder had waived or agreed to waive any dividends.

SHARE CAPITAL

During the year ended 31 December 2019, the Company had issued (i) 14,125 Shares as a result of the exercise of the Pre-IPO Share Options; (ii) 1,851,568 consideration Shares to KongZhong Corporation at the issue price of HK$6.02 per Share on 27 March 2019; and (iii) 22,268,908 consideration Shares to KongZhong Corporation at the issue price of HK$6.876 per Share on 26 June 2019. For details of the consideration issue, please refer to the announcements of the Company dated 16 January 2019, 27 March 2019, 24 April 2019, 24 May 2019, 26 June 2019 and 28 June 2019 respectively.

Details of the movement in the share capital of the Company during the year ended 31 December 2019 are set out in note 36(b) to the Financial Statements.

RESERVES

Details of the movements in reserves of the Group during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity and note 36 on page 99 and page 162 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had distributable reserves of approximately RMB663.9 million (as at 31 December 2018: RMB1,113.7 million), none of which had been proposed as final dividend for the year ended 31 December 2019.

FINANCIAL HIGHLIGHTS

A summary of the condensed consolidated results and financial position for the last five financial years of the Group is set out on page 4 of this annual report.

CHARITABLE DONATIONS

Save for those disclosed in the section headed "Returning to Our Community" in the Environmental, Social and Governance Report, the Group did not make charitable donations during the year ended 31 December 2019.

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group during the year ended 31 December 2019 are set out in note 17 to the Financial Statements.

BORROWINGS

During the year ended 31 December 2019, the Group did not have any short-term or long-term bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant unrecorded contingent liabilities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2019 and as at the Latest Practicable Date.

PRE-EMPTIVE RIGHTS

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

REPORT OF DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the Latest Practicable Date were:

Executive Directors

Mr. HAN Jun *(Chief Executive Officer) (appointed with effect from 11 November 2019)*
Mr. ZHANG Yang *(Co-Chief Operations Officer) (retired with effect from 28 May 2019)*
Mr. WANG Dongfeng *(Chairman and Chief Executive Officer) (resigned with effect from 30 September 2019)*
Ms. LI Luyi *(Chairman and Chief Executive Officer) (appointed with effect from 14 April 2019 and resigned with effect from 7 November 2019)*

Non-executive Directors

Mr. ZHANG Qiang *(Chairman)*
Ms. LIANG Na *(re-designated as Non-executive Director with effect from 1 July 2020)*

Independent Non-executive Directors

Mr. WANG Dong (appointed with effect from 27 April 2020)
Mr. WONG Chi Kin (appointed with effect from 27 April 2020)
Mr. CUI Yuzhi (appointed with effect from 7 May 2020)
Mr. HOW Sze Ming (resigned with effect from 30 April 2020)
Mr. ZHAO Cong Richard (resigned with effect from 30 April 2020)
Mr. WAN Joseph Jason (resigned with effect from 30 April 2020)

Mr. HAN Jun was appointed as an Executive Director, chairman of the Board, chief executive officer of the Company and an authorised representative of the Company under Rule 3.05 of the Listing Rules (the "**Authorised Representative**") in place of Ms. LI Luyi with effect from 11 November 2019. On 27 April 2020, Mr. Han resigned as chairman of the Board and the Authorised Representative but remains as an Executive Director and chief executive officer of the Company. On 7 May 2020, Mr. Han was appointed as a member of the Remuneration Committee.

Ms. LIANG Na was re-designated from the sole chief financial officer of the Company to one of the joint chief financial officers of the Company with effect from 7 May 2020. Ms. LIANG Na has resigned from the position of joint chief financial officer of the Company which took effect on 30 June 2020. With effect from 1 July 2020, Ms. LIANG Na has been re-designated from Executive Director to Non-executive Director.

Mr. ZHANG Yang was re-designated from the chief operations officer of the Group to co-chief operations officer of the Group on 14 April 2019. In accordance with article 104 of the Articles, Mr. ZHANG Yang retired from office as an Executive Director by rotation at the annual general meeting of the Company held on 28 May 2019 and did not offer himself for re-election as Director at such annual general meeting in order to devote more time to focus on the management of JLC (Cayman). He also resigned as the co-chief operations officer of the Group on 28 May 2019.

REPORT OF DIRECTORS

Mr. WANG Dongfeng resigned as Executive Director, the chairman of the Board, the chief executive officer of the Company, the chairman of the Nomination Committee and the Authorised Representative on 30 September 2019.

Ms. LI Luyi was appointed as an Executive Director on 14 April 2019. She had also acted as the co-chief operations officer of the Group since the completion of her application for the change of employment of her working visa from the Immigration Department of the Government of Hong Kong. She was re-elected as an Executive Director at the annual general meeting of the Company held on 28 May 2019 and was re-designated from the co-chief operations officer to the chief operations officer of the Group on 28 May 2019. Ms. LI Luyi was appointed as the chairman of the Board, the chairman of the Nomination Committee, and the Authorised Representative and was re-designated from the chief operations officer of the Group to chief executive officer on 30 September 2019. She resigned as Executive Director, the chairman of the Board, the chief executive officer, the chairman of the Nomination Committee and the Authorised Representative on 7 November 2019.

Mr. ZHANG Qiang was appointed as chairman of the Board and the Authorised Representative in place of Mr. HAN Jun with effect from 27 April 2020. On 7 May 2020, Mr. Zhang ceased to be a member of each of the Audit and Compliance Committee and Remuneration Committee, and was appointed as chairman of the Nomination Committee.

Mr. HOW Sze Ming was appointed as the chairman of the Nomination Committee on 8 November 2019.

Each of Mr. HOW Sze Ming, Mr. ZHAO Cong Richard and Mr. WAN Joseph Jason resigned as an Independent Non-executive Director with effect from 30 April 2020. Upon their respective resignation, Mr. HOW Sze Ming ceased to be chairman of the Audit and Compliance Committee, chairman of the Nomination Committee and a member of the Remuneration Committee; Mr. ZHAO Cong Richard ceased to be chairman of the Remuneration Committee and a member of the Nomination Committee; and Mr. WAN Joseph Jason ceased to be a member of each of the Audit and Compliance Committee and the Nomination Committee.

Mr. WANG Dong was appointed as an Independent Non-executive Director with effect from 27 April 2020. On 7 May 2020, Mr. WANG Dong was further appointed as a member of each of the Audit and Compliance Committee and the Nomination Committee and chairman of the Remuneration Committee, and subsequently appointed as a member of the Corporate Governance Committee on 22 May 2020.

Mr. WONG Chi Kin was appointed as an Independent Non-executive Director with effect from 27 April 2020. On 7 May 2020, Mr. WONG was further appointed as chairman of the Audit and Compliance Committee and a member of the Remuneration Committee, and subsequently appointed as a member of the Corporate Governance Committee on 22 May 2020.

Mr. CUI Yuzhi was appointed as an Independent Non-executive Director and a member of each of the Audit and Compliance Committee and the Nomination Committee with effect from 7 May 2020. On 22 May 2020, Mr. CUI Yuzhi was further appointed as chairman of the Corporate Governance Committee.

Pursuant to article 99(3) of the Articles, any Director so appointed to fill a casual vacancy by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. Any Director so appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. WANG Dong and Mr. WONG Chi Kin shall hold office until the forthcoming Annual General Meeting and being eligible, offer themselves for re-election as Directors at the Annual General Meeting.

REPORT OF DIRECTORS

Pursuant to article 104(1) of the Articles, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Accordingly, Mr. ZHANG Qiang and Ms. LIANG Na shall retire from office by rotation at the forthcoming Annual General Meeting. Ms. LIANG Na has indicated that she will not offer herself for re-election as Director and will retire after the conclusion of the Annual General Meeting. Mr. ZHANG Qiang, being eligible, has offered himself for re-election as Director at the Annual General Meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 79 to 86 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company and each of the Independent Non-executive Directors and the Non-executive Director has signed an appointment letter with the Company.

The appointment of all the Former Independent Non-executive Directors was effective from the respective appointment date for an initial term of two years and was renewable for a further term of two years. Save for the Former Independent Non-executive Directors, the appointment of all the other Directors, including the Executive Directors, the Non-executive Director and the Independent Non-executive Directors, is effective from the respective appointment date for an initial term of three years and is renewable for a further term of three years. All of these appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract or appointment letter with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors (including the Former Independent Non-executive Directors), namely Mr. HOW Sze Ming, Mr. ZHAO Cong Richard, Mr. WAN Joseph Jason, Mr. WANG Dong, Mr. WONG Chi Kin and Mr. CUI Yuzhi a confirmation in writing in respect of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has reviewed the independence of each of these Directors and considers all the Independent Non-executive Directors to be independent.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executives at the relevant time being in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director/ Chief Executive	Capacity/ Nature of Interest	Relevant Company	Relevant Class of Shares/ Underlying Shares held	Approximate Percentage of Shareholding
ZHAO Cong Richard (趙聰)(1)	Beneficial Owner	The Company	192,733 Ordinary Shares (long position)	0.12%
HOW Sze Ming (侯思明)(2)	Beneficial Owner	The Company	168,333 Ordinary Shares (long position)	0.11%
ZHANG Qiang (張強)(3)	Beneficial Owner	The Company	93,333 Ordinary Shares (long position)	0.06%
LIANG Na (梁娜)(4)	Beneficial Owner	The Company	1,212,222 Ordinary Shares (long position)	0.76%
WAN Joseph Jason (尹宸賢)(5)	Beneficial Owner	The Company	68,333 Ordinary Shares (long position)	0.04%

Notes:

(1) Mr. ZHAO Cong Richard was interested in the Pre-IPO Share Options to subscribe for 49,400 Shares as at 31 December 2019. He was also granted 100,000 RSUs under the Restricted Share Unit Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018. Mr. ZHAO Cong Richard sold 25,000 Shares vested under the RSU Scheme on 29 June 2017. Mr. ZHAO Cong Richard was further granted 50,000 RSUs under the Restricted Share Unit Scheme in 2018, 8,333 of which vested on 1 December 2018 and 41,667 of which were cancelled on 30 June 2019. The Company further granted 60,000 RSUs to Mr. ZHAO Cong Richard under the Restricted Share Unit Scheme in 2019, 12,000 of which vested on 1 July 2019 and 12,000 vested on 1 January 2020.

(2) Mr. HOW Sze Ming was granted 100,000 RSUs under the Restricted Share Unit Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018. He was further granted 50,000 RSUs under the Restricted Share Unit Scheme in 2018, 8,333 of which vested on 1 December 2018 and 41,667 of which were cancelled on 30 June 2019. The Company further granted 60,000 RSUs to Mr. HOW Sze Ming under the Restricted Share Unit Scheme in 2019, 12,000 of which vested on 1 July 2019 and 12,000 vested on 1 January 2020.

(3) Mr. ZHANG Qiang was granted 100,000 RSUs under the Restricted Share Unit Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018. He was further granted 50,000 RSUs under the Restricted Share Unit Scheme in 2018, 8,333 of which vested on 1 December 2018 and 41,667 of which were cancelled on 30 June 2019. Mr. ZHANG Qiang sold 75,000 Shares vested under the RSU Scheme on 17 January 2019. The Company further granted 60,000 RSUs to Mr. ZHANG Qiang under the Restricted Share Unit Scheme in 2019, 12,000 of which vested on 1 July 2019 and 12,000 vested on 1 January 2020.

(4) Ms. LIANG Na was interested in the Pre-IPO Share Options to subscribe for 25,089 Shares as at 31 December 2019. Ms. LIANG Na was granted 820,000 RSUs under the Restricted Share Unit Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018. Ms. LIANG Na sold 216,200 Shares vested under the RSU Scheme during the period from 18 July 2017 to 4 September 2018. She was further granted 200,000 RSUs under the Restricted Share Unit Scheme in 2018, 33,333 of which vested on 1 December 2018 and 166,667 of which were cancelled on 30 June 2019. The Company further granted 550,000 RSUs to Ms. LIANG Na under the Restricted Share Unit Scheme in 2019, 110,000 of which vested on 1 July 2019 and 110,000 vested on 1 January 2020.

(5) Mr. WAN Joseph Jason was granted 50,000 RSUs under the Restricted Share Unit Scheme in 2018, 8,333 of which vested on 1 December 2018 and 41,667 of which were cancelled on 30 June 2019. The Company further granted 60,000 RSUs to Mr. WAN Joseph Jason under the Restricted Share Unit Scheme in 2019, 12,000 of which vested on 1 July 2019 and 12,000 vested on 1 January 2020.

Save as disclosed above, none of the Directors or chief executives of the Company at the relevant time had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2019.

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

As at 31 December 2019, the following are the persons, other than the Directors or chief executives of the Company at the relevant time, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name	Capacity/Nature of Interest	Number and Class of Shares	Approximate Percentage of Shareholding
Managecorp Limited [1]	Trustee	29,437,335 Ordinary Shares (long position)	18.47%
Foga Group [1]	Beneficial Owner	21,673,338 Ordinary Shares (long position)	13.60%
WANG Dongfeng	Founder of the Discretionary Trust Interest of Controlled Corporation[1]	21,673,338 Ordinary Shares (long position)	13.60%
	Beneficial Owner [2]	1,650,800 Ordinary Shares (long position)	1.04%
YANG Tao	Interest of Controlled Corporation [3]	7,785,700 Ordinary Shares (long position)	4.89%
	Beneficial Owner [4]	1,340,000 Ordinary Shares (long position)	0.84%
KongZhong Corporation	Beneficial Owner[5]	10,202,168 Ordinary Shares (long position)	6.40%

Name	Capacity/Nature of Interest	Number and Class of Shares	Approximate Percentage of Shareholding
	Interest of Controlled Corporation[6]	22,268,908 Ordinary Shares (long position)	13.97%
Linkedsee Group Limited [5]	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
Linkedsee Limited [5]	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
WANG Leilei [5]	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
上海常匯互聯網科技有限公司 (Shanghai Changhui Internet Technology Co., Limited*) [5]	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
北京五星融誠科技有限責任公司 (Beijing Wuxing Rongcheng Technology Co., Limited.*) [5]	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
北京和諧欣榮投資中心(有限合夥) (Beijing Hexie Xinrong Investment Center (Limited Partnership)*) [5]	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
和諧天明投資管理(北京)有限公司 (Hexie Tianming Investment Management (Beijing) Co., Ltd.*) [5]	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
和諧成長二期(義烏)投資中心(有限合夥) (Hexie Chengzhang Phase II (YIWU) Investment Center (Limited Partnership)*) [5]	Interest of Controlled Corporation	32,471,076 Ordinary Shares (long position)	20.37%
空中(中國)有限公司 (KongZhong (China) Co., Ltd.*)[6]	Interest of Controlled Corporation	22,268,908 Ordinary Shares (long position)	13.97%

Name	Capacity/Nature of Interest	Number and Class of Shares	Approximate Percentage of Shareholding
上海大承網絡技術有限公司 (Shanghai Dacheng Network Technology Co., Ltd.*)	Beneficial Owner	22,268,908 Ordinary Shares (long position)	13.97%
China Create Capital Limited	Beneficial Owner	9,584,000 Ordinary Shares (long position)	6.01%

Notes:

(1) Foga Group is wholly owned by Managecorp Limited as the trustee of Wang Trust. Wang Trust is a discretionary trust set up by Mr. WANG Dongfeng, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary objects of Wang Trust include Mr. WANG Dongfeng and certain of his family members. Mr. WANG Dongfeng and Managecorp Limited are taken to be interested in 21,673,338 Shares held by Foga Group. In addition, Foga Holdings is wholly owned by Managecorp Limited as the trustee of Hao Dong Trust. Hao Dong Trust is a discretionary trust set up by Mr. LIAO Dong, who is its settlor and protector, with Managecorp Limited as trustee on 15 March 2013. The beneficiary object of Hao Dong Trust is Mr. LIAO Dong himself. Mr. LIAO Dong and Managecorp Limited are taken to be interested in 7,763,997 Shares held by Foga Holdings.

(2) Mr. WANG Dongfeng was granted 500,000 RSUs under the Restricted Share Unit Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018. Mr. WANG Dongfeng bought an aggregate of 850,800 Shares during the period from 26 June to 13 July 2017. He was further granted 300,000 RSUs under the Restricted Share Unit Scheme in 2018, 50,000 of which vested on 1 December 2018 and 250,000 of which were cancelled on 30 June 2019. The Company further granted 250,000 RSUs to Mr. WANG Dongfeng under the Restricted Share Unit Scheme in 2019, 50,000 of which vested on 1 July 2019 and 50,000 vested on 1 January 2020. Mr. WANG Dongfeng resigned as Executive Director with effect from 30 September 2019.

(3) Foga Internet Development is wholly owned by Mr. YANG Tao. Mr. YANG Tao is taken to be interested in the 7,785,700 Shares held by Foga Internet Development Ltd.

(4) Mr. YANG Tao was granted 1,340,000 RSUs under the Restricted Share Unit Scheme in 2016, all of which vested during the period from 1 December 2016 to 1 June 2018.

(5) KongZhong Corporation is interested in 32,471,076 Shares, representing approximately 20.37% of the issued share capital of the Company. KongZhong Corporation is 100% owned by Linkedsee Limited, which in turn is 73.13% owned by Linkedsee Group Limited. Shanghai Changhui Internet Technology Co., Limited.* (上海常匯互聯網科技有限公司) holds 57.32% of equity interest of Linkedsee Group Limited. Beijing Wuxing Rongcheng Technology Co., Limited.* (北京五星融誠科技有限責任公司) holds 100% equity interest of Shanghai Changhui Internet Technology Co., Limited.* (上海常匯互聯網科技有限公司). Beijing Wuxing Rongcheng Technology Co., Ltd.* (北京五星融誠科技有限責任公司) is 51.11% owned by Mr. WANG Leilei and 40.89% owned by Hexie Chengzhang Phase II (YIWU) Investment Center (Limited Partnership)* (和諧成長二期(義烏)投資中心(有限合夥)). Hexie Chengzhang Phase II (YIWU) Investment Center (Limited Partnership)* (和諧成長二期(義烏)投資中心(有限合夥)) is 3% held by Beijing Hexie Xinrong Investment Center (Limited Partnership)* (北京和諧欣榮投資中心(有限合夥)). Beijing Hexie Xinrong Investment Center (Limited Partnership)* (北京和諧欣榮投資中心(有限合夥)) is 0.1% owned by Hexie Tianming Investment Management (Beijing) Co., Ltd.* (和諧天明投資管理(北京)有限公司).

(6) 上海大承網絡技術有限公司 (Shanghai Dacheng Network Technology Co., Ltd.*) is owned as to 98.54% by 空中(中國)有限公司 (KongZhong (China) Co., Ltd.*), which is in turn 100% owned by KongZhong Corporation. By virtue of the SFO, 空中(中國)有限公司 (KongZhong (China) Co., Ltd.*) and KongZhong Corporation are taken to be interested in the 22,268,908 Shares held by 上海大承網絡技術有限公司 (Shanghai Dacheng Network Technology Co., Ltd.*).

Save as disclosed above, as at 31 December 2019, the Company is not aware of any other person (other than the Directors or chief executives of the Company at the relevant time) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors and chief executives' interests and short positions in shares, underlying shares and debentures" above, at no time during the year ended 31 December 2019 and up to the Latest Practicable Date was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Group (including the PRC Operational Entities), none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group for the year ended 31 December 2019.

MATERIAL ACQUISITION AND DISPOSAL

Save as disclosed in the section headed "Management Discussion and Analysis — Material Acquisition and Disposal" in this annual report, during the year ended 31 December 2019, the Group did not perform any material acquisition or disposal of subsidiaries, associated companies or joint ventures.

CONNECTED TRANSACTIONS

The Loan Agreement

On 19 September 2019, Beijing Xigua and Tianjin Wanke (indirect non-wholly owned subsidiaries of the Company) as the borrowers, Beijing Yidong and KongZhong Youyi as the guarantors, and Yunke as the lender entered into the Loan Agreement pursuant to which (i) Yunke has agreed to provide the loan with principal amount of RMB15,000,000, at an interest rate of 12% per annum for a term of 12 months to Beijing Xigua and Tianjin Wanke; (ii) Beijing Yidong and KongZhong Youyi have agreed to provide the corporate guarantee in favour of Yunke; and (iii) Beijing Xigua and Tianjin Wanke shall pledge their trade receivables in the total amount of approximately RMB30,300,000 in favour of Yunke. The loan shall be applied and used by the Beijing Xigua and Tianjin Wanke for extending the network of VR experience stores and general working capital.

Both Beijing Yidong and KongZhong Youyi are companies controlled through contractual arrangements by KongZhong Corporation, and KongZhong Corporation is a substantial Shareholder. Therefore, Beijing Yidong and KongZhong Youyi are connected persons of the Company. As such, the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

For details of this transaction, please refer to the announcements of the Company dated 19 September 2019.

CONTINUING CONNECTED TRANSACTIONS

A. Decoration Services Agreement

On 20 May 2019, Beijing Xigua entered into the Decoration Services Agreement with Beijing Zhongding, pursuant to which Beijing Zhongding agreed to provide decoration services to Beijing Xigua and its subsidiaries and branch companies for a fixed term which commenced on 20 May 2019 and ending on 19 May 2020 (both days inclusive). The decoration services to be provided by Beijing Zhongding to Beijing Xigua and its subsidiaries and branch companies include, but are not limited to, the provision of renovation, decoration and other related services for the VR Stores (the "**Decoration Services**").

The identified transaction amount paid by Beijing Xigua to Beijing Zhongding pursuant to the Decoration Services Agreement for the period from 31 December 2019 amounted to approximately RMB4.9 million.

As at the date of the Decoration Services Agreement, Beijing Zhongding was owned as to 99.01% by Mr. Yu Shemo, a nephew of Ms. Li Luyi, a former executive director and the former chief executive officer of the Company, whom the Group was unable to contact from late-October to early-November prior her resignation on 7 November 2019. As such, Mr. Yu Shemo is deemed as a connected person of the Company under Rule 14A.21 of the Listing Rules.

For details of this transaction, please refer to the announcement of the Company dated 16 April 2020.

B. Strategic Cooperation Framework Agreement

On 5 September 2019, the Group entered into the Strategic Cooperation Framework Agreement with KongZhong Corporation, pursuant to which the Group has agreed to offer and KongZhong Group has agreed to procure the VR Experience Services, in consideration of the fees payable by KongZhong Group to the Group. The Strategic Cooperation Framework Agreement is for a term commencing from 5 September 2019 and ending on 31 December 2021.

For the year ended 31 December 2019, the aggregate amount of revenue recognized by the Group under the Strategic Cooperation Framework Agreement amounted to RMB197,000. It was estimated that the aggregate amount of fees to be received by the Group under the Strategic Cooperation Framework Agreement for the year ending 31 December 2020 and 2021 will not exceed RMB15,000,000 and RMB15,000,000 respectively. By entering into the Strategic Cooperation Framework Agreement, the Group would be able to formulate a stable partnership with KongZhong Group for the purpose of creating synergies that are beneficial for all the parties involved.

As KongZhong Corporation was a substantial Shareholder and therefore a connected person of the Company, the entering into of the Strategic Cooperation Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For details of this transaction, please refer to the announcements of the Company dated 5 September 2019 and 18 September 2019 respectively.

Save as disclosed above and in the section headed "Report Directors — Contractual Arrangement — H. Chapter 14A Implications" in this report, during the year ended 31 December 2019, no related party transactions disclosed in note 43 to the Financial Statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to Rules 14A.49 and 14A.71 of the Listing Rules. Save for the continuing connected transactions contemplated under the Decoration Services Agreement as explained below, the Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.55 of the Listing Rules, the Independent Non-executive Directors must review the continuing connected transactions every year and to give relevant confirmations in the annual report in respect of the continuing connected transactions.

As stated in the announcement of the Company dated 16 April 2020, the Company was not aware that the Decoration Services Agreement would constitute a continuing connected transaction for the Company under the Listing Rules as the agreement was entered into prior to the completion of the acquisition of Beijing Xigua by the Group on 26 June 2019, and Mr. Yu Shemo was not listed on the connected persons list as reported by Ms. Li Luyi at the time when Ms. Li Luyi became the Group's connected person. Further, no attention was drawn to the Company by Mr. Yu Shemo in relation to his relationship with Ms. Li Luyi. on 13 April 2020, the Board was notified of the relationship between Mr. Yu Shemo and Ms. Li Luyi by the management of the Company during the process of an internal review on the operation of Beijing Xigua. Accordingly, the Former Independent Non-executive Directors did not conduct an annual review on the Decoration Services Agreement and the transactions contemplated thereunder pursuant to 14A.55 of the Listing Rules.

Nevertheless, the Company will implement the following measures to pro-actively prevent any similar incidence from occurrence in the future, including:

(a) conducting a detailed review of the existing list of connected persons as currently maintained by the Company and to ensure that the list will be reviewed and confirmed periodically, and all newly joined directors and/or senior management shall be briefed clearly as to the definition and requirement relating to the entering of connected transactions with the Company and proactively assist the Company to compile and update the list of connected persons from time to time;

(b) enhancing training on the Listing Rules and other relevant laws and regulations to the managerial staff of the Group who may be involved in handling transactions of the Group; and

(c) establishing a committee, comprising primarily the senior legal counsel and officers in compliance, legal and finance departments of the Group, to review all proposed transactions, as contemplated under Chapters 14 and 14A of the Listing Rules, of the Group and ensure a cross check procedure is in place and strictly observed, and to closely liaise with the company secretary department of the Company as to any actions required to be taken in order to ensure compliance.

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

Basis for Disclaimer of Conclusion

Ms. Li Luyi, the former executive director and chief executive officer of the Company, was responsible for the management and operation of Beijing Xigua prior to her loss of contact from late October to early November 2019 and her resignation on 7 November 2019. Accordingly, the auditors were unable to obtain sufficient appropriate evidence to satisfy themselves as to believe that whether the above disclosed continuing connected transactions have been approved by the Company's board of directors, complied with the pricing policies of the Group, entered into in accordance with the relevant agreements governing such transactions, and exceeded the annual cap as set by the Company. There are no other satisfactory procedures that the auditors could adopt to provide a conclusion on the above disclosed continuing connected transactions.

Disclaimer of Conclusion

Because of the significance of the matter described in the Basis for Disclaimer of Conclusion section, the auditors have not been able to obtain sufficient appropriate evidence to form a conclusion on the above disclosed continuing connected transactions.

A copy of the auditor's letter on the continuing connected transactions of the Group for the year ended 31 December 2019 has been provided by the Company to the Stock Exchange.

CONTRACTUAL ARRANGEMENTS

Investment activities in the PRC by foreign investors and foreign-owned enterprises shall comply with the Foreign Investment Law which was approved by the National People's Congress on 15 March 2019 and became effective from 1 January 2020, the Regulation on Implementing the Foreign Investment Law which was approved by the State Council on 26 December 2019 and became effective from 1 January 2020, and the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019 version) which was jointly issued by the Ministry of Commerce and the National Development and Reform Commission on 30 June 2019 and became effective on 30 July 2019 (the "**Negative List**"). The Negative List contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories subject to special administrative measures, such as prohibition or restriction on foreign investment. According to the Negative List, (i) the webgame and mobile game businesses currently operated by the Feidong PRC Operational Entities, namely Feiyin, Weidong and Jieyou, and (ii) the fintech business under the "Jianlicai" brand operated by the JLC PRC Operational Entities immediately prior to the completion of the JLC Disposal, principally Jinweilai, involve in value-added telecommunications services (except for e-commerce) and internet cultural business (except for music), and restricted or prohibited foreign investors to invest in.

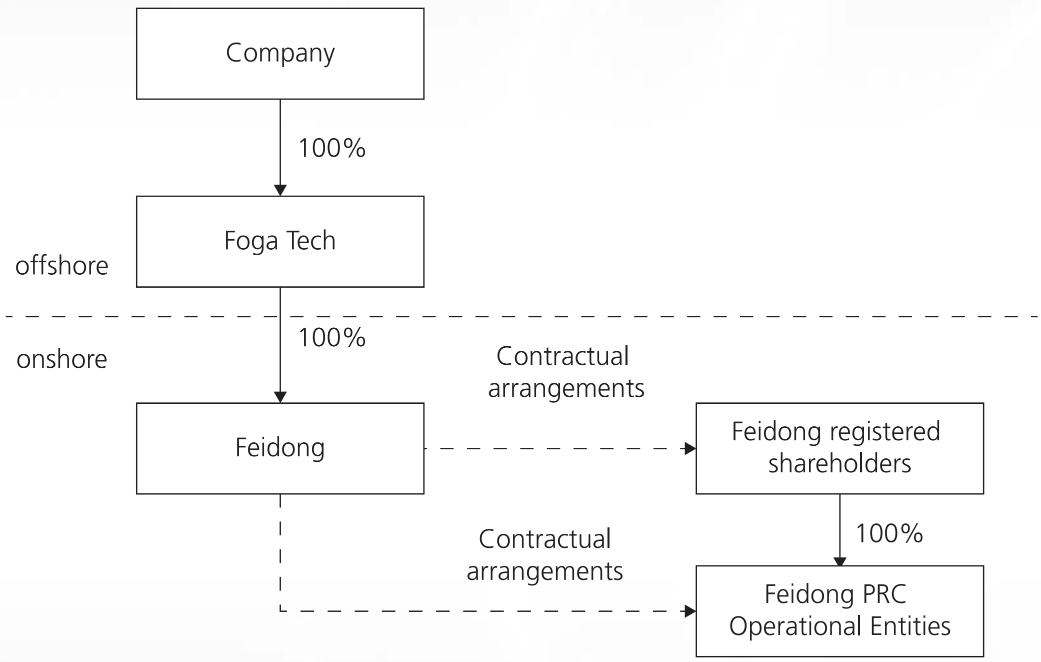
Furthermore, according to the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, which were issued on 11 December 2001 by the State Council and amended on 10 September 2008, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including internet content provision services. Internet content provision services are classified as value-added telecommunications businesses, and a commercial operator of such services must obtain an ICP Licence from the appropriate telecommunications authorities in order to carry on any commercial internet content provision operations in China. A foreign investor who invests in a value-added telecommunications businesses in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "**Qualification Requirement**").

As advised by the Company's PRC legal advisers, as at 31 December 2019, no applicable PRC laws, regulations or rules had provided clear guidance or interpretation on the Qualification Requirement, and there was no update to the Qualification Requirement. Further, the Negative List updated in June 2019 did not lessen the requirements in respect of foreign investments on value-added telecommunications services and internet cultural business.

A. Feidong Contractual Arrangements

In order for the Company to be able to carry on its businesses in China including webgame and mobile game businesses, operations and investments in the fintech business (including internet micro-credit in the PRC) and provision of information technology services, the Group has in place the Feidong Contractual Arrangements between Feidong, on one hand, the Feidong PRC Operational Entities and their respective shareholders on the other hand, which enable the Company to exercise control over the Feidong PRC Operational Entities, and to consolidate the financial results of Feidong PRC Operational Entities in the results of the Company under IFRSs as if they were wholly-owned subsidiaries of the Company.

The table below sets out a simplified structure of the Feidong Contractual Arrangements:



Summary of the major terms of the structured contracts under the Feidong Contractual Arrangements

The following sets out a summary of the major terms of the structured contracts under the Feidong Contractual Arrangements which were in place during the year ended 31 December 2019:

i. Exclusive options agreements dated June and July 2012, which were amended and restated on 12 September 2013, entered into between each of the Feidong PRC Operational Entities, their respective shareholders, and Feidong, under which Feidong was granted an exclusive irrevocable option to purchase from the respective shareholders some or all of their equity interests in the Feidong PRC Operational Entities at any time, at a nominal amount subject to applicable PRC laws.

ii. Exclusive business cooperation agreements dated 21 June 2012, which were amended and restated on 12 September 2013, entered into between each of the Feidong PRC Operational Entities and Feidong, under which each of the Feidong PRC Operational Entities agreed to engage Feidong as its exclusive provider of business support, technical and consulting services, including network support, business consultations, intellectual property development, equipment leasing, marketing consultancy, system integration, product research and development and system maintenance, in exchange for a monthly service fee. The monthly fee is, subject to Feidong's adjustment, equal to 100% of the net income of the Feidong PRC Operational Entities and may also include accumulated earnings of the Feidong PRC Operational Entities from previous financial years. Pursuant to the exclusive business cooperation agreements, Feidong also has the exclusive and proprietary rights to all intellectual properties developed by the Feidong PRC Operational Entities.

iii. Share pledge agreements dated July 2012, which were amended and restated on 12 September 2013, entered into between each of the Feidong PRC Operational Entities, its respective shareholders, and Feidong, under which the shareholders of the Feidong PRC Operational Entities pledged all of their respective equity interests in the Feidong PRC Operational Entities to Feidong as collateral security for all of their payments due to Feidong and to secure performance of their obligations under the above-mentioned exclusive business cooperation agreements.

iv. Irrevocable powers of attorney executed in June and July 2012, which were amended and restated on 12 September 2013, executed by each of the shareholders of the Feidong PRC Operational Entities to appoint Feidong as the exclusive agent and attorney to act on their behalf on all matters concerning the Feidong PRC Operational Entities and to exercise all of their rights as registered shareholders of the Feidong PRC Operational Entities.

For details of the Contractual Arrangements, please refer to the section headed "Contractual Arrangements" in the Prospectus.

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

Particulars of the Feidong PRC Operational Entities as at 31 December 2019:

Name of the Feidong PRC Operational Entities	Type of legal entity/ place of establishment and operation	Registered owners	Business activities
Feiyin	Limited liability company/the PRC	41.10% by Mr. Huang 24.70% by Mr. Liao 23.75% by Mr. Wang 9.50% by Mr. Zhuang 0.95% by Mr. Yang	Development of webgames and mobile games; operations and investments in the fintech business (through Yunke, a wholly-owned subsidiary of Feiyin established under the laws of the PRC in 2016)
Weidong	Limited liability company/the PRC	41.10% by Mr. Huang 24.70% by Mr. Liao 23.75% by Mr. Wang 9.50% by Mr. Zhuang 0.95% by Mr. Yang	Development and operation of webgames and mobile games
Jieyou	Limited liability company/the PRC	48.61% by Mr. Zhuang 20.94% by Mr. Wang 17.13% by Mr. Liao 12.37% by Mr. Huang 0.95% by Mr. Yang	Development and operation of webgames and mobile games

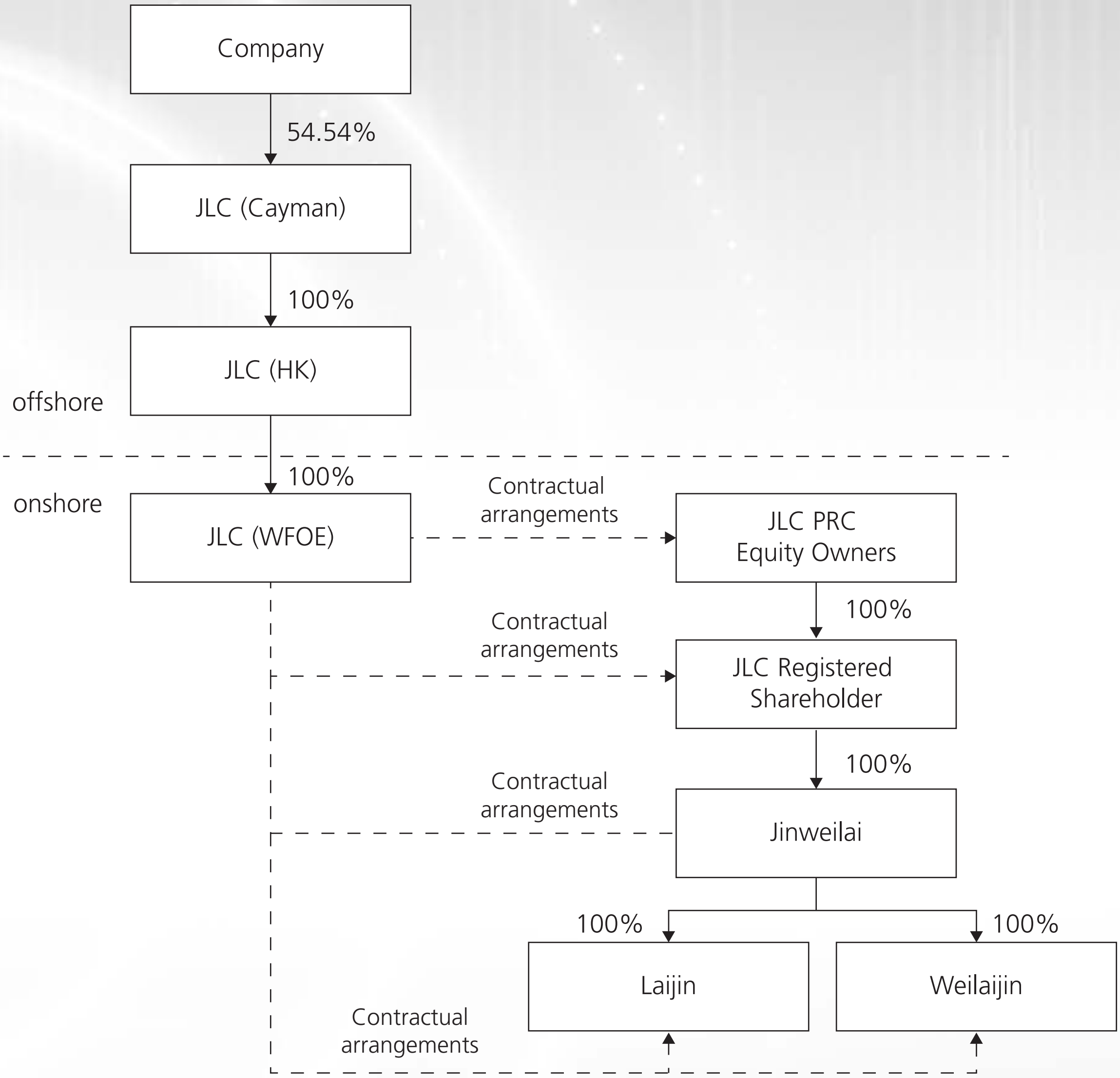
The Feidong PRC Operational Entities are significant to the Group as they hold certain licences and permits that are essential to the operations of the webgame and mobile game businesses and internet micro-credit in the PRC of the Group, such as the ICP Licence, the Network Cultural Business Permit, the Internet Publication Licence and the internet micro-credit business licence (《江西省小額貸款公司經營許可證》) in the PRC. In addition, most of the intellectual property rights relating to such businesses, including software copyrights, trademarks, patents and domain names, are held by the Feidong PRC Operational Entities.

The Feidong PRC Operational Entities have undertaken to the Company that, for so long as the Shares are listed on the Stock Exchange, the Feidong PRC Operational Entities will provide the Group's management and the auditors of the Company with full access to its relevant records for the purpose of procedures to be carried out by the auditors of the Company on the transactions contemplated under the Feidong Contractual Arrangements.

B. JLC Contractual Arrangements

As set out in "Management Discussion and Analysis — Material Acquisition and Disposal", the equity interest in JLC (Cayman) has been disposed as at 6 September 2019. Before the disposal, as set out above, pursuant to the applicable PRC laws, the value-added telecommunications business (Information Service via Internet and mobile network) of the JLC PRC Operational Entities was subject to restriction on foreign investment. As such, each of the JLC PRC Operational Entities, the JLC Registered Shareholder and their respective shareholders, and JLC (WFOE) entered into the JLC Contractual Arrangements to enable the financial results, the entire economic benefits and risks of the businesses of the JLC PRC Operational Entities to flow into JLC (WFOE) and to enable JLC (WFOE) to gain the controlling right of the JLC PRC Operational Entities.

The table below sets out a simplified structure of the JLC Contractual Arrangements immediately prior to the completion of JLC Disposal:



Summary of the major terms of the structured contracts under the JLC Contractual Arrangements

The following sets out a summary of the major terms of the structured contracts under the JLC Contractual Arrangements which were in place during the year up to 6 September 2019, being the date on which completion of the JLC Disposal by the Company took place. Please refer to the section headed "Management Discussion and Analysis — Material Acquisition and Disposal" for further details in relation to the above disposal.

i. exclusive options agreements dated 31 July 2017 and entered into among (i) the registered shareholders of the respective JLC VIE Controlled Entity, (ii) JLC (WFOE), and (iii) the respective JLC VIE Controlled Entity, pursuant to which the registered shareholder(s) of respective JLC VIE Controlled Entity irrevocably agree(s), to the extent permitted under the laws of the PRC, to transfer to JLC (WFOE) or any persons(s) designated by JLC (WFOE), all or in tranches of its equity interest in the respective JLC VIE Controlled Entity, at a minimum purchase price permitted by the PRC laws and regulations (the "**Agreed Price**"). The registered shareholder(s) of the respective JLC VIE Controlled Entity will undertake to reimburse JLC (WFOE) (or the person as designated by JLC (WFOE)), any difference between the actual consideration JLC (WFOE) (or the person as designated by JLC (WFOE)) paid pursuant to the exercise of the option(s) and the Agreed Price. JLC (WFOE) may exercise such options at any time until it or the person(s) designated by it has acquired the entire interest of the JLC VIE Controlled Entities.

ii. exclusive business cooperation agreements dated 31 July 2017 and entered into between the respective JLC VIE Controlled Entity and JLC (WFOE), pursuant to which the respective JLC VIE Controlled Entity engaged JLC (WFOE) on an exclusive basis to provide business and technical consultancy services in connection with the business of the respective JLC VIE Controlled Entity. In consideration of the provision of business and technical consultancy services, the respective JLC VIE Controlled Entity would pay JLC (WFOE) a service fee equivalent to 100% of the income and interests of the respective JLC VIE Controlled Entity every year after deduction of necessary costs, expenses, taxes and mandatory reserves.

iii. equity pledge agreements dated 31 July 2017 and entered into among (i) the registered shareholders of the respective JLC VIE Controlled Entity, (ii) JLC (WFOE), and (iii) the respective JLC VIE Controlled Entity, pursuant to which the registered shareholder(s) agreed to pledge all equity interest in the respective JLC VIE Controlled Entity held by the registered shareholders to JLC (WFOE).

iv. irrevocable power of attorney dated 31 July 2017 and entered into among the registered shareholder(s) of the respective JLC VIE Controlled Entity, pursuant to which the registered shareholder(s) irrevocably and unconditionally undertook to authorise JLC (WFOE) or any person as designated by JLC (WFOE) to exercise on their behalf full shareholders' rights under the articles of association of the respective JLC VIE Controlled Entity and applicable PRC laws and regulations, including, but not limited to (i) the right to convene, attend the shareholders' meetings and vote and sign minutes of shareholders' meetings and shareholders' resolutions, (ii) exercising all shareholder's rights under PRC laws and the articles of association of the respective JLC VIE Controlled Entity, including but not limited to selling, transferring or disposing of entire or any part of the equity interests thereof, (iii) appointing the legal representatives, director, supervisor, chief executive or other senior management thereof, and (iv) the right to file documents with the relevant companies registry. The registered shareholder(s) also undertook that in the event of its bankruptcy, liquidation, or loss of legal capacity it would do all actions to ensure its successor(s) will join in and be bound by the terms of the irrevocable power of attorney and the rights and obligations thereunder.

v. a spousal consent letter dated 31 July 2017 and issued by the spouse of Mr. Guo Yong, pursuant to which the spouse of Mr. Guo Yong unconditionally and irrevocably, (i) acknowledged that all the equity interests of the JLC Registered Shareholder registered under the name of Mr. Guo Yong did not form part of her matrimonial property, (ii) undertook that she will not claim any remedy in respect of the equity interests in the JLC Registered Shareholder, and (iii) confirmed that the performance or amendments of the JLC Structured Contracts did not require her consent or approval.

For details of the JLC Contractual Arrangements, please refer to the announcement of the Company dated 25 June 2017.

Between the completion of the acquisition of 55% equity interest in JLC (Cayman) on 16 August 2017 and the completion of the JLC Disposal on 6 September 2019, (i) there were no new contractual arrangements entered into, renewed or reproduced between the Group and the JLC PRC Operational Entities, (ii) there were no material changes in the JLC Contractual Arrangements or the circumstances under which they were adopted, and (iii) none of the structured contracts under the JLC Contractual Arrangement mentioned above had unwound as none of the restrictions that led to the adoption of structured contracts under the JLC Contractual Arrangements were removed.

Particulars of the JLC PRC Operational Entities immediately prior to the completion of the JLC Disposal

Name of the JLC PRC Operational Entities	Type of legal entity/ place of establishment and operation	Registered owners	Business scope
Jinweilai	Limited liability company/the PRC	100% by JLC Registered Shareholder	Provision of finance information technology services
Weilaijin	Limited liability company/the PRC	100% by Jinweilai	Provision of finance consulting services and technology services
Laijin	Limited liability company/the PRC	100% by Jinweilai	Provision of investment consulting services

Prior to the completion of the JLC Disposal, the JLC PRC Operational Entities were significant to the Group as they hold certain licences and permits that were essential to the operations of the fintech business under the "Jianlicai" brand of the Group, such as the ICP Licence. In addition, most of the IP rights relevant to such operations, including software copyrights, trademarks, patents and domain names, were held by the JLC PRC Operational Entities.

During the period which the JLC Contractual Arrangements remained effective, the JLC PRC Operational Entities undertook to the Company that, for so long as the Shares are listed on the Stock Exchange, the JLC PRC Operational Entities would provide the Group's management and the auditors of the Company with full access to its relevant records for the purpose of procedures to be carried out by the auditors of the Company on the transactions contemplated under the JLC Contractual Arrangements.

C. Requirements related to the Contractual Arrangements (other than relevant foreign ownership restrictions)

As advised by the Company's PRC legal advisers, requirements related to the Contractual Arrangements (other than relevant foreign ownership restrictions) include:

i. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the state, (ii) malicious collusion is conducted to damage the interest of the state, a collective unit or a third party, (iii) the contract damages the public interest, (iv) an illegitimate purpose is concealed under the guise of legitimate acts or (v) the contract violates the mandatory provisions of the laws or administrative regulations. As advised by the Company's PRC legal advisers, the relevant terms of the Contractual Arrangements do not fall within any of the aforementioned five circumstances, and in particular, would not be deemed as "concealing an illegitimate purpose under the guise of legitimate acts" under Article 52 of the PRC Contract Law, and do not violate the provisions of the PRC Contract Law or the General Principles of the PRC Civil Law. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and future PRC laws and regulations, and there can be no assurance that any PRC government agency will not take a view that is contrary to or otherwise different from the above.

ii. According to the Contractual Arrangements, when a dispute arises, any party to the agreements may submit such dispute to the China International Economic and Trade Arbitration Commission for settlement pursuant to the effective arbitration rules at that time, and the arbitration award shall be final and binding on the parties. Arbitration tribunal may decide compensation for the equity interests and property ownership of the on-shore subsidiaries, decide enforceable remedy or demand liquidation of relevant business or enforceable asset transfer. Any party is entitled to request the competent court to execute the arbitration award when it comes into effect. The courts in Hong Kong and Cayman Islands also have the right to grant or execute awards of arbitration tribunal and make decision or execute temporary remedy on the equity interests and property ownership of the on-shore subsidiaries. However, pursuant to the laws of China, in the settlement of dispute, the arbitration tribunals shall not be entitled to grant an injunctive order to protect the property ownership or equity interests of the on-shore subsidiaries, and shall not issue a temporary or final liquidation order directly. Moreover, the interim remedies or orders granted by the off-shore courts, including Hong Kong and Cayman Islands, may not be recognised or enforced by the courts in China. Therefore, such terms in above agreements may not be enforceable under the laws of China.

D. Progress of overseas expansion plans

Despite the lack of clear guidance or interpretation on the Qualification Requirement, the Company has been gradually building up the track record of overseas telecommunications business operations. Since 2016, the Group had expanded its game business to overseas markets by launching "Liberators" in the United States and other countries. Once PRC laws allow foreign investors to invest in value-added telecommunications enterprises in China, the Group would seek qualification to acquire the entire equity interests of the Feidong PRC Operational Entities as early as possible.

The Group also maintains a Hong Kong office which mainly provides managerial support to the Group.

E. Revenue and assets subject to the structured contracts under the Contractual Arrangements

For the year ended 31 December 2019, the services provided by Feidong to the Feidong PRC Operational Entities, including provision of business support services and sales of IP, amounted to an aggregate of approximately RMB21.8 million. Immediately prior to the completion of the JLC Disposal in 2019, the services provided by JLC (WFOE) to the JLC PRC Operational Entities was nil.

The revenue and the total asset value of the Feidong PRC Operational Entities subject to the Feidong Contractual Arrangements amounted to approximately RMB71.9 million for the year ended 31 December 2019 and approximately RMB764.2 million as at 31 December 2019, respectively.

The revenue and the total asset value of the JLC VIE Controlled Entities subject to the JLC Contractual Arrangements amounted to approximately RMB41.1 million immediately prior to the completion of the JLC Disposal in 2019 and approximately RMB107.9 million at the moment of the completion of the JLC Disposal in 2019, respectively.

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

	Risk associated with the Contractual Arrangements	Mitigation actions taken by the Company
i.	If the PRC government finds that the underlying agreements of the Contractual Arrangements that establish the structure for operating the business of the Company in the PRC do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe penalties or be forced to relinquish the interests in those operations.	Pursuant to the relevant exclusive business cooperation agreements under the Contractual Arrangements, at any time after the date of such agreements, in the event of any promulgation or change of any law, regulation or rule of China or any interpretation or applicable change of such laws, regulations or rules, the following agreements shall be applicable: If the economic interests of any party under the agreements suffer a significant adverse effect directly or indirectly due to above change of laws, regulations or rules, the agreements should continue to operate pursuant to the original terms. Each of the parties shall obtain a waiver for complying with such change or rule via all legal channels. If any adverse effect on the economic interests of any party may not be eliminated according to the relevant agreement, upon the receipt by the other parties of such notice from the affected party, all the parties shall promptly discuss and make all necessary modification to the agreements to preserve the economic interests of the affected party under the agreement.

	Risk associated with the Contractual Arrangements	Mitigation actions taken by the Company
ii.	The Contractual Arrangements may not be as effective in providing operational control as direct ownership and the PRC Operational Entities or their shareholders may fail to perform their obligations under the Contractual Arrangements.	According to the relevant powers of attorney, share pledge agreements and exclusive business cooperation agreements under the Contractual Arrangements, the arbitration tribunal may decide (i) compensation for the equity interests or property ownership of the PRC Operational Entities or their shareholders, or (ii) enforceable remedy or to demand bankruptcy of the PRC Operational Entities or their shareholders for relevant business or enforceable asset transfer. Any party is entitled to request a competent court to execute the arbitration award when it comes into effect.
iii.	The Company may lose the ability to use and enjoy assets held by the PRC Operational Entities that are important to the operation of the business of the Group if the PRC Operational Entities declare bankruptcy or become subject to dissolution or liquidation proceedings.	Pursuant to the relevant exclusive option agreements under the Contractual Arrangements, in the event of a mandatory liquidation required by the laws of the PRC, (i) the relevant Feidong PRC Operational Entities shall sell all of their assets and any residual interest through a non- reciprocal transfer to the extent permitted by the laws of the PRC to Feidong or another qualifying entity designated by Feidong, at the lowest selling price permitted by applicable laws of the PRC, and (ii) the relevant JLC PRC Operational Entities shall sell all of their assets and any residual interest through a non-reciprocal transfer to the extent permitted by the laws of the PRC to JLC (WFOE) or another qualifying entity designated by JLC (WFOE), at the lowest selling price permitted by applicable laws of the PRC.
iv.	The Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that the Group owes additional taxes could substantially reduce the consolidated net income of the Group and the value of the investment of the Shareholders.	As advised by the Company's PRC legal advisers, who took the view that the Contractual Arrangements will not be challenged by the PRC tax authorities unless the PRC tax authorities determine that such transactions are not conducted on an arm's length basis, provided that (i) Feidong and the Feidong PRC Operational Entities implement the Feidong Contractual Arrangements in accordance with the terms of the structured contracts, and (ii) JLC (WFOE) and the JLC PRC Operational Entities implement the JLC Contractual Arrangements in accordance with the terms of the structured contracts.

	Risk associated with the Contractual Arrangements	Mitigation actions taken by the Company
v.	The Group may be subject to higher income tax rates and incur additional taxes as a result of the Contractual Arrangements, which may increase the overall tax expenses and decrease the overall profit margin of the Group.	Pursuant to the PRC Enterprise Income Tax Law, Feidong qualified as "high and new technology enterprise" and was entitled to preferential income tax rates during preferential periods as disclosed in note 11 to the Financial Statements. Feidong will use reasonable endeavours to take all necessary actions to maintain their qualification status in order to continue to enjoy the preferential tax treatment. Please also refer to paragraph iv above.
vi.	Shareholders of the PRC Operational Entities may potentially have a conflict of interest with the Group, and such shareholders may breach their contracts with the Group, or cause such contracts to be amended in a manner contrary to the interests of the Group.	The shareholders of the PRC Operational Entities have undertaken to Feidong and JLC (WFOE), respectively, that during the period when the Contractual Arrangements remain effective, (i) unless otherwise agreed by Feidong or JLC (WFOE) in writing, the relevant shareholder would not, directly or indirectly (either on his own account or through any natural person or legal entity) participate, be interested in, engage in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may potentially be in competition with the businesses of the PRC Operational Entities or any of its affiliates and (ii) any of his actions or omissions would not lead to any conflict of interest between him and Feidong and JLC (WFOE) (including but not limited to its shareholders). Furthermore, in the event of the occurrence of a conflict of interest where Feidong or JLC (WFOE) has the sole absolute discretion to determine whether such conflict arises, he agrees to take any appropriate actions as instructed by Feidong or JLC (WFOE).
vii.	The Group depends on the PRC Operational Entities to provide certain services that are critical to its business. The breach or termination of any of these service agreements or any failure of or significant quality deterioration in these services could have a material adverse effect on the business, financial condition and results of operations of the Group.	To ensure sound and effective operation of the Group after the adoption of the Contractual Arrangements, during the period when the Contractual Arrangements remain effective, the relevant business units and operation divisions of the Group will report regularly, no less frequent than on a monthly basis, to the senior management of the Company on the compliance and performance conditions under the Contractual Arrangements and other related matters. In addition, the PRC Operational Entities are not permitted to terminate the relevant exclusive business cooperation agreements under the Contractual Arrangements unless Feidong or JLC (WFOE) commits gross negligence or a fraudulent act against them.

	Risk associated with the Contractual Arrangements	Mitigation actions taken by the Company
viii.	The Group conducts its business operation in the PRC through the PRC Operational Entities by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under the PRC laws.	As advised by the Company's PRC legal advisers, save as disclosed in the paragraph headed "G. Deviation from the guidance letter in respect of the Contractual Arrangements" below, the Contractual Arrangements were narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations.
ix.	If Feidong or JLC (WFOE) (or their designee within the Group) exercises the option to acquire equity ownership of the PRC Operational Entities, the ownership transfer may subject the Group to substantial costs.	According to the relevant exclusive option agreements under the Contractual Arrangements, unless valuation is required under the laws of China before exercising such option, the purchase price of the equity interests shall be the nominal price, and if the relevant governmental authorities specify a particular price as the purchase price of equity interests, the purchaser shall return the surplus or make up the difference to the vendor, provided that the vendor and purchaser need to assume such tax incurred by such party or levied on such party, respectively.
x.	Assets (including equity interests) registered under shareholders of the PRC Operational Entities may be subject to seizure, confiscation, freezing, auction or sale by the People's Court of the PRC due to litigation, arbitration or other legal proceedings against such shareholders	Regular review to check whether such conditions exist, discover such conditions and obtain specific details in a timely manner. Feidong and the Feidong PRC Operation Entities and its shareholders have signed Share Pledge Agreements pursuant to which Feidong shall claim that the outstanding amount of money from the Feidong PRC Operational Entities under the contractual arrangement shall be paid in priority from the proceeds of auction and sale of shares if the shares of the Feidong PRC Operational Entities are auctioned.

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

For details of the risks associated with the JLC Contractual Arrangements, please refer to the section headed "Risk Factors" of the announcement of the Company dated 25 June 2017.

G. Deviation from the Guidance Letter in respect of the Contractual Arrangements

Paragraph 16(a) (i) of the Guidance Letter GL77-14 published by the Stock Exchange in May 2014 (as updated in August 2015 and April 2018) in relation to listed issuers using contractual arrangements for their businesses (the "**Guidance Letter**") requires that structured contracts shall be narrowly tailored to achieve the issuer's business purpose and minimise the potential for conflict with relevant PRC laws and regulations. As advised by the PRC legal advisers, 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 (except for e-commerce). Furthermore, to the best knowledge of the Company and the PRC legal advisers, if a Sino-Foreign equity joint-venture enterprise applies for an ICP licence, it will be subject to more stringent requirements or additional requirements imposed by the MIIT or its local counterparts (the "**Relevant Authority**") as compared to domestic enterprises in the PRC. As compared to domestic enterprises in the PRC, the Relevant Authority will require more information, documents and other proof from an applicant which is a Sino-Foreign equity enterprise in various aspects, such as the identity and nationality of its ultimate individual shareholders, the prior experience of the foreign investor(s) in operating value-added telecommunications businesses and a proven track record of its overseas business operations (collectively, the "**Additional Information**"). No criteria, standard, guidance or interpretation documents have been published by the Relevant Authority on how the Additional Information will be assessed, whether in qualitative or quantitative aspect, and on the extent or form of requirements of the Additional Information.

H. Chapter 14A implications

Feidong Contractual Arrangements

Waiver from the Stock Exchange and Annual Review

For the purposes of Chapter 14A of the Listing Rules, certain transactions under the Feidong PRC Contractual Agreements constitute continuing connected transactions under the Listing Rules. The Stock Exchange has granted a specific waiver to the Company from strict compliance with the connected transactions requirement under Chapter 14A of the Listing Rules in respect of the Feidong Contractual Arrangements. For details, please refer to the section headed "Connected Transactions" in the Prospectus.

The Directors are of the opinion that the transactions under the Feidong Contractual Arrangements were conducted in the ordinary course of business of the Group.

Pursuant to Rule 14A.55 of the Listing Rules, the Independent Non-executive Directors have reviewed the continuing connected transactions under the Feidong Contractual Arrangements and confirmed that these continuing connected transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Independent Non-executive Directors have also confirmed that (i) the transactions carried out during the year ended 31 December 2019 have been entered into in accordance with the relevant provisions of the Feidong Contractual Arrangements, (ii) no dividends or other distributions have been made by the Feidong PRC Operational Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group, and (iii) there were no new contracts entered into, renewed or reproduced between the Group and the Feidong PRC Operational Entities during the year ended 31 December 2019. Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain agreed-upon procedures 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 Transaction under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants on the aforesaid continuing connected transactions. Based on the work performed, the auditors of the Company have provided a letter to the Board confirming that:

1. nothing has come to their attention that causes the auditors of the Company to believe that the disclosed continuing connected transactions have not been approved by the Board;

2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditors of the Company to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. nothing has come to their attention that causes the auditors of the Company to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Feidong Contractual Arrangements governing such transactions; and

4. nothing has come to their attention that causes the auditors of the Company to believe that dividends or other distributions have been made by the Feidong PRC Operational Entities to the holders of its equity interests which are not otherwise subsequently assigned/transferred to the Group.

After the Listing Date and up to the Latest Practical Date, among the Founders, (i) Mr. Huang retired as Director on 27 May 2014 and resigned from all positions held within the Group with effect from 1 April 2015, but remains as a 41.10% registered shareholder of Feiyin and Weidong and a 12.37% registered shareholder of Jieyou, (ii) Mr. Liao retired as Director on 27 May 2014 and resigned from all positions held within the Group with effect from 1 April 2015, but remains as a 24.70% registered shareholder of Feiyin and Weidong and a 17.13% registered shareholder of Jieyou, (iii) Mr. Zhuang resigned as Director and from all positions held within the Group with effect from 1 April 2015, but remains as a 9.50% registered shareholder of Feiyin and Weidong and a 48.61% registered shareholder of Jieyou, and (iv) Mr. Wang resigned as Director with effect from 30 September 2019, but remains as a 23.75% registered shareholder of Feiyin and Weidong and a 20.94% registered shareholder of Jieyou.

JLC Contractual Arrangements

Pursuant to Chapter 14A of the Listing Rules, the JLC PRC Operational Entities do not fall within the definition of "Connected Person". Accordingly, the JLC Contractual Arrangements and the transactions between the JLC PRC Operational Entities and JLC (WFOE) did not constitute continuing connected transactions of the Company under the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director or his connected entities had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its parent company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2019 and up to the Latest Practicable Date.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2019 and up to the Latest Practicable Date.

REMUNERATION POLICY AND DIRECTORS' REMUNERATION

As at 31 December 2019, the Group had 615 full-time employees. The remuneration to the employees of the Group includes salaries, bonus and allowances. The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. The Group also provides intensive customised trainings to its staff to enhance their technical and product knowledge as they will be designated to mentors who are experienced employees in relevant teams or departments. The mentors will provide regular on-the-job trainings to the staff. The Group offers competitive remuneration packages to the Directors, and the Shareholders have authorised the Board to fix the remuneration of the Directors (including but not limited to Directors' fees) at the Company's annual general meeting held on 28 May 2019. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

The Group has also adopted Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme and Restricted Share Unit Scheme as long-term incentive schemes of the Group.

Details of the Directors' remuneration during the year ended 31 December 2019 are set out in note 14 to the Financial Statements.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme by a resolution of its Shareholders on 31 October 2012, which was amended on 1 September 2013. The Pre-IPO Share Option Scheme is not subject to the provision of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Scheme does not involve the grant of options by the Company to subscribe for Shares once the Company is a listed issuer. No further options will be granted under the Pre-IPO Share Option Scheme.

Pursuant to the Pre-IPO Share Option Scheme, the Company had granted options to subscribe for 6,440,911 Shares to the Directors and employees of the Group.

Set out below are details of the outstanding options granted to Directors and employees of the Group under the Pre-IPO Option Scheme as at 31 December 2019:

Name of grantee	Number and class of Shares under the options granted	Date of grant	Vesting period	Option year	Outstanding as at 1 January 2019	Exercise price	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2019
Directors										
LIANG Na	157,589 Ordinary Shares	1 January 2013	3 October 2013 to 1 May 2016	10 years from the date of grant	25,089 Ordinary Shares	Par value of the ordinary shares	–	–	–	25,089 Ordinary Shares
ZHAO Cong Richard	49,400 Ordinary Shares	1 September 2013	3 October 2013 to 1 September 2015	10 years from the date of grant	49,400 Ordinary Shares	Par value of the ordinary shares	–	–	–	49,400 Ordinary Shares
Sub-Total	**206,989 Ordinary Shares**	**–**	**–**	**–**	**74,489 Ordinary Shares**	**–**	**–**	**–**	**–**	**74,489 Ordinary Shares**
Two former Directors and 361 employees	6,233,922 Ordinary Shares	1 January 2013 to 1 September 2013	3 October 2013 to 1 July 2017	10 years from the date of grant	392,006 Ordinary Shares	Par value of the ordinary shares	14,125 Ordinary Shares	–	–	377,881 Ordinary Shares
Total	**6,440,911 Ordinary Shares**	**–**	**–**	**–**	**466,495 Ordinary Shares**	**–**	**14,125 Ordinary Shares (Note)**	**–**	**–**	**452,370 Ordinary Shares**

Note: The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK$6.22 (equivalent to approximately RMB5.47) per share.

As a result of the exercise of the Pre-IPO Share Options during the year ended 31 December 2019, the Company has issued 14,125 Shares to the grantees for an aggregate consideration of US$1.4125. Such Shares are of the same class and are identical in all respect with other Shares in issue.

For further details of the Pre-IPO Share Option Scheme, please refer to the section headed "Statutory and General Information" in Appendix IV to the Prospectus and note 37(a) to the Financial Statements.

POST-IPO SHARE OPTION SCHEME

The Company has approved and adopted the Post-IPO Share Option Scheme by a resolution of its Shareholders on 1 September 2013 and a resolution of the Board on 1 September 2013. The Post-IPO Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules.

The Company has granted options to subscribe for (i) 1,908,000 Shares to employees of the Group on 2 January 2015 and (ii) 3,845,000 Shares to Directors and employees of the Group on 10 June 2015.

Set out below are details of the outstanding options granted to the Directors and employees of the Group under the Post-IPO Share Option Scheme as at 31 December 2019:

Name of grantee	Number and class of Shares under the options granted	Date of grant	Vesting period	Option year	Outstanding as at 1 January 2019	Exercise price	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2019
LIANG Na	329,000 Ordinary Shares	2 January 2015	2 July 2015 to 2 January 2017	4 years from the date of grant	329,000 Ordinary Shares	HK$14.61	–	–	329,000 Ordinary Shares	–
14 employees	1,579,000 Ordinary Shares	2 January 2015	2 July 2015 to 2 January 2017	4 years from the date of grant	1,079,000 Ordinary Shares	HK$14.61	–	–	1,079,000 Ordinary Shares	–
LIANG Na	350,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	–	HK$24.29	–	–	–	–
ZHAO Cong Richard	70,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	–	HK$24.29	–	–	–	–
Three former Directors and 20 employees	3,425,000 Ordinary Shares	10 June 2015	August 2016 to March 2018	4 years from the date of grant	–	HK$24.29	–	–	–	–
Total	**5,753,000 Ordinary Shares**	**–**	**–**	**–**	**1,408,000 Ordinary Shares**	**–**	**–**	**–**	**1,408,000 Ordinary Shares**	**–**

Note: The closing prices of the shares immediately before the dates on which the options were granted on 2 January 2015 and 10 June 2015 were HK$14.70 and HK$23.05 respectively.

During the year ended 31 December 2019, no options granted under the Post-IPO Share Option Scheme was exercised or cancelled.

For further details of the Post-IPO Share Option Scheme, please refer to the section headed "Statutory and General Information" in Appendix IV to the Prospectus and note 37(b) to the Financial Statements.

SUMMARY OF THE SHARE OPTION SCHEMES

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
1.	Purpose	For the purpose of providing incentives and rewards to eligible persons who contribute to the growth and development of the Group and the listing of the Shares on the Stock Exchange	To reward eligible participants for their past contribution to the success of the Group, and to provide incentives to them to further contribute to the Group
2.	Participants	(i) Any Director of any member of the Group from time to time, (ii) any employee or officer of any member of the Group and (iii) any advisers, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners, service providers of any member of the Group, who the Board considers, in its sole discretion, have contributed and will contribute to the Group	(i) The full-time employees, executives or officers (including Directors) of the Company, (ii) the full-time employees of any of the subsidiaries and/or PRC Operational Entities, (iii) any suppliers, customers, consultants, agents, advisers that have contributed or will contribute to the Group and (iv) any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Group
3.	Maximum number of Shares	As at 31 December 2019 and the Latest Practicable Date, options to subscribe for an aggregate of 452,370 Shares and 452,370 Shares were outstanding respectively, representing approximately 0.28% and 0.28% of the issued share capital of the Company as at 31 December 2019 and the Latest Practicable Date, respectively No further option could be granted under the Pre-IPO Share Option Scheme	As at 31 December 2019 and the Latest Practicable Date, the maximum number of Shares available for issue in respect of which options may be granted or have been granted but have not been exercised under the Post-IPO Share Option Scheme was 13,694,591 Shares and 13,694,591 Shares respectively, representing approximately 8.59% and 8.59% of the issued share capital of the Company as at 31 December 2019 and the Latest Practicable Date, respectively The maximum number of the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other scheme of the Company must not in aggregate exceed 30% of the total number of Shares in issue from time to time

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
4.	Maximum entitlement of each participant	The total number of Shares subject to the Pre-IPO Share Option Scheme shall not exceed 6% of the aggregate of the Shares in issue on 31 October 2012, the date of adoption of the Pre-IPO Share Option Scheme	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant
5.	Option year	Except as provided otherwise and subject to the terms and conditions upon which such option was granted, any option granted will vest over a total vesting year of four years commencing from the date of offer in equal proportions of 25% each on the expiry of the first, second, third and fourth anniversary of the Offer Date, respectively; provided that the year within which an option must be exercised shall not be more than ten years commencing on the date of grant	The option year is determined by the Board provided that it is no later than the tenth anniversary of the date of grant. There is no minimum year for which an option must be held before it can be exercised The Board may in its absolute discretion specify such conditions as to performance criteria to be satisfied by the participant and/or the Company and/or the Group which must be satisfied before an option can be exercised
6.	Acceptance of offer	Options granted must be accepted within 28 days of the date of grant, upon payment of HK$1.0 per grant	Options granted must be accepted within the date as stated in the notice of grant, upon payment of HK$1.0 per grant
7.	Exercise price	Exercise price shall be the par value of the Shares as amended as a result of any subdivision, consolidation, reclassification or reconstruction of the share capital of the Company from time to time. As at the date of the grant, the par value of the Shares was US$0.0001	Exercise price shall be not less than the highest of (i) the nominal value of an ordinary share on the date of grant, (ii) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options and (iii) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the grant
8.	Remaining life of the scheme	It shall be valid and effective for ten years commencing on 31 October 2012	It shall be valid and effective for ten years commencing on 3 October 2013

THE RESTRICTED SHARE UNIT SCHEME

The Company has approved and adopted the RSU Scheme by a resolution of its Shareholders on 1 September 2013 and a resolution of the Board on 1 September 2013. The Company has appointed Computershare Hong Kong Trustees Limited as professional trustee to assist the administration and vesting of the RSUs. The 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.

The RSUs do not carry any right to vote at general meetings of the Company. No RSU grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an award of RSUs ("**Award**") pursuant to the RSU Scheme. Notwithstanding the foregoing, if so specified by the Board in its entire discretion, the RSU may include rights to cash or non-cash income, scrip dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any shares underlying the Award.

As at 31 December 2019, the Company has offered to grant RSUs to subscribe for 4,260,000 Shares, 2,500,000 Shares and 2,500,000 Shares to Directors and employees of the Group on 13 September 2016, 4 June 2018 and 12 April 2019 respectively.

Set out below are details of the outstanding RSUs granted to the Directors and employees of the Group under the RSU Scheme as at 31 December 2019:

Name of grantee	Number and class of Shares under the RSUs granted	Date of offer	Vesting period	Outstanding as at 1 January 2019	Vested during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2019
LIANG Na	820,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	–	–	–	–	–
ZHANG Qiang	100,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	–	–	–	–	–
ZHAO Cong Richard	100,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	–	–	–	–	–
HOW Sze Ming	100,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	–	–	–	–	–
Two former Directors and 17 employees	3,140,000 Ordinary Shares	13 September 2016	1 December 2016 to 1 June 2018	–	–	–	–	–

Name of grantee	Number and class of Shares under the RSUs granted	Date of offer	Vesting period	Outstanding as at 1 January 2019	Vested during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2019
LIANG Na	200,000 Ordinary Shares	4 June 2018	1 December 2018 to 1 December 2020	166,667 Ordinary Shares	–	166,667 Ordinary Shares	–	–
ZHANG Qiang	50,000 Ordinary Shares	4 June 2018	1 December 2018 to 1 December 2020	41,667 Ordinary Shares	–	41,667 Ordinary Shares	–	–
ZHAO Cong Richard	50,000 Ordinary Shares	4 June 2018	1 December 2018 to 1 December 2020	41,667 Ordinary Shares	–	41,667 Ordinary Shares	–	–
HOW Sze Ming	50,000 Ordinary Shares	4 June 2018	1 December 2018 to 1 December 2020	41,667 Ordinary Shares	–	41,667 Ordinary Shares	–	–
WAN Joseph Jason	50,000 Ordinary Shares	4 June 2018	1 December 2018 to 1 December 2020	41,667 Ordinary Shares	–	41,667 Ordinary Shares	–	–
Two former Directors and 29 employees	2,100,000 Ordinary Shares	4 June 2018	1 December 2018 to 1 December 2020	1,524,999 Ordinary Shares	–	1,524,999 Ordinary Shares	–	–
LIANG Na	550,000 Ordinary Shares	12 April 2019	1 July 2019 to 1 July 2021	–	110,000 Ordinary Shares	–	–	440,000 Ordinary Shares
ZHANG Qiang	60,000 Ordinary Shares	12 April 2019	1 July 2019 to 1 July 2021	–	12,000 Ordinary Shares	–	–	48,000 Ordinary Shares
ZHAO Cong Richard	60,000 Ordinary Shares	12 April 2019	1 July 2019 to 1 July 2021	–	12,000 Ordinary Shares	–	–	48,000 Ordinary Shares
HOW Sze Ming	60,000 Ordinary Shares	12 April 2019	1 July 2019 to 1 July 2021	–	12,000 Ordinary Shares	–	–	48,000 Ordinary Shares

Name of grantee	Number and class of Shares under the RSUs granted	Date of offer	Vesting period	Outstanding as at 1 January 2019	Vested during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2019
WAN Joseph Jason	60,000 Ordinary Shares	12 April 2019	1 July 2019 to 1 July 2021	–	12,000 Ordinary Shares	–	–	48,000 Ordinary Shares
One former Director and 16 employees	1,710,000 Ordinary Shares	12 April 2019	1 July 2019 to 1 July 2021	–	342,000 Ordinary Shares	–	–	1,368,000 Ordinary Shares
Total	**9,260,000 Ordinary Shares**	**–**	**–**	**1,858,334 Ordinary Shares**	**500,000 Ordinary Shares**	**1,858,334 Ordinary Shares**	**–**	**2,000,000 Ordinary Shares**

SUMMARY OF THE RSU SCHEME

1.	Purpose	To reward the participants of the RSU Scheme for their contribution to the success of the Group, and to provide incentives to them to further contribute to the Group
2.	Participants	(i) full-time employees or officers (including Executive, Non-executive and Independent Non-executive Directors), (ii) full-time employees of any of the subsidiaries and the PRC Operational Entities, (iii) any suppliers, customers, consultants, agents, advisers that have contributed or will contribute to the Company, any of its subsidiaries and/or the PRC Operational Entities, and (iv) any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Company, any of its subsidiaries and/or the PRC Operational Entities
3.	Maximum number of Shares	As at 31 December 2019 and the Latest Practicable Date, the maximum number of Shares underlying the RSUs available for grant was 4,425,453 Shares and 5,273,453 Shares respectively, representing approximately 2.78% and 3.31% of the issued share capital of the Company as at 31 December 2019 and the Latest Practicable Date, respectively The maximum number of Shares underlying the RSUs which may be granted must not in aggregate exceed 11,290,494 Shares, representing 9% of the number of Shares in issue on the Listing Date (the "**RSU Scheme Limit**"). The RSU Scheme Limit may be refreshed from time to time subject to prior Shareholders' approval, but must not exceed 9% of the number of Shares in issue as at the new approval date

4.	Acceptance of Award	A grant shall be deemed to have been accepted when in respect of a board lot or an integral multiple thereof and to have taken effect when notice is given to the Company by the grantee in accordance with the instructions from the Company pursuant to the RSU management agreement, being an agreement entered into between the Company and the relevant service provider or any other service agreement to facilitate the acceptance and vesting of RSUs to the grantees from time to time
5.	Vesting	Subject to the terms of the RSU Scheme and the specific terms and conditions applicable to each Award, the RSUs granted in an Award shall be subject to a vesting period, to the satisfaction of performance and/or other conditions to be determined by the Board. If such conditions are not satisfied, the RSU shall be cancelled automatically on the date on which such conditions are not satisfied, as determined by the Board in its absolute discretion
6.	Trustee	The Board has appointed Computershare Hong Kong Trustee Limited on 2 July 2014 as professional trustee to assist with the administration and vesting of RSUs pursuant to the RSU Scheme
7.	Remaining life of the scheme	It shall be valid and effective till 31 August 2023

For further details of the RSU Scheme, please refer to the section headed "Statutory and General Information" in Appendix IV to the Prospectus and note 37(c) to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the percentage of the aggregate revenue attributable to the Group's five largest customers did not exceed 30% of the Group's total revenue.

During the year ended 31 December 2019, the percentage of the aggregate purchases attributable to the Group's five largest suppliers did not exceed 30% of the Group's cost of revenue.

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

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

At the Company's annual general meeting held on 25 May 2018, the Shareholders granted a share buy-back mandate to the Board to buy back Shares (which should not exceed 10% of the issued share capital of the Company as at 25 May 2018) from time to time as the Board thinks fit until the earliest of (i) the conclusion of the next annual general meeting of the Company, (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the memorandum and articles of association of the Company to be held, or (iii) the revocation or variation of the authority given under the resolution by an ordinary resolution of the Shareholders in general meeting. Pursuant to such mandate, during the year ended 31 December 2019, the Company bought back a total of 1,790,300 Shares at a consideration of HK$5,768,785 on the Stock Exchange, all of which were cancelled on 30 January 2019. The buy-backs were effected by the Directors for the enhancement of Shareholders' value. Details of the buy-backs pursuant to such mandate as at 31 December 2019 are as follows:

Month of buy-backs	Total number of Shares bought back (on the Stock Exchange)	Price per Share		Aggregate consideration
		Highest	Lowest	
		(HK$)	(HK$)	(HK$)
January 2019	1,790,300	3.3	3.15	5,768,785
	1,790,300			**5,768,785**

At the Company's annual general meeting held on 28 May 2019, the Shareholders granted a share buy-back mandate to the Board to buy back Shares (which should not exceed 10% of the issued share capital of the Company as at 28 May 2019) from time to time as the Board thinks fit until the earliest of (i) the conclusion of the next annual general meeting of the Company, (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles to be held or, (iii) the revocation or variation of the authority given under the resolution by an ordinary resolution of the Shareholders in general meeting. During the year ended 31 December 2019, the Company had not bought back any Shares (whether on the Stock Exchange or otherwise) pursuant to such mandate.

Save as disclosed above, during the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2019

After the outbreak of the Epidemic in early 2020, a series of precautionary and control measures have been and continued to be implemented across nationwide, including but not limited to the restriction in travel, logistics at provincial or municipal level, as well as crowd gathering.

The directors of the Company have assessed and concluded that the outbreak of the Epidemic may have the following potential impact to the Group:

- The offline entertainment operations of the Beijing Xigua's physical stores were severely and adversely affected during the outbreak of the Epidemic and when the customers' consumptions in these physical stores could be fully recovered and resumed back to the normal level is still remains uncertain. The Group already decided to close down more self-owned physical stores in order to minimize the negative impact of the outbreak of the Epidemic. At present, the detailed closure plan of the self-owned physical stores is still under deliberated consideration by the directors of the Company.

- The impacts of the outbreak of the Epidemic and the overall economic slowdown on the borrowers' financial positions and their repayment capabilities are still uncertain. The Group has already experienced increasing cases for borrowers not paying overdue interests on loans receivable timely and this indicated that the credit risk associated with the Group's loans receivable might have been increased.

- The fair values of the Group's unlisted investments and the Compensation Options (note 27) classified as financial assets at FVTPL or FVOCI were determined based on the condition as of 31 December 2019. The fair value of these financial assets may be affected adversely due to the outbreak of the Epidemic.

The overall financial effect of the above cannot be reliably estimated as of the date of this annual report.

The Group will closely monitor the development of the outbreak of the Epidemic and continue to evaluate its impact on the financial position and operating results of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group is committed to the long-term sustainability of its business and the communities in which it conducts business. It has adopted a proactive approach to environmental, social and governance responsibility. The Environmental, Social and Governance Report is set out on pages 180 to 208 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular, those that have significant impact on the Group, such as (i) the Copyright Law of the PRC (2010 Amendment), (ii) Provisions on the Administration of Online Publishing Services, (iii) Guidelines for the Supervision and Administration of Network Microcredit Companies of Jiangxi Province (for Trial Implementation), and (vi) Guiding Opinions on Promoting the Healthy Development of Internet Finance. The Audit and Compliance Committee is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of the relevant employees and the relevant operation units from time to time.

As far as the Company is aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company during the year ended 31 December 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. Save as disclosed in the Corporate Governance Report under this annual report in relation to the deviations from code provision A.2.1 of the CG Code, the Company has complied with the code provisions in the CG Code throughout the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

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

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

EQUITY-LINKED AGREEMENTS

Save for the Pre-IPO Share Option Scheme, the Post-IPO Share Option Scheme and the Restricted Share Unit Scheme as disclosed in this annual report, no equity-linked agreement was entered into during the year ended 31 December 2019 or subsisted at the end of the year of 2019.

AUDITOR

The Financial Statements of the Group for the year ended 31 December 2019 have been audited by ZHONGHUI ANDA CPA Limited, certified public accountants.

References are made to the Company's announcements dated 29 May 2020, 8 June 2020 and the Company's circular dated 11 June 2020 in relation to the proposed change of auditors, and the Company's announcement dated 3 July 2020 in relation to the poll results of the extraordinary general meeting of the Company held on 3 July 2020.

At the extraordinary general meeting of the Company held on 3 July 2020, ordinary resolutions were passed by the Shareholders to, among other things: (i) remove PricewaterhouseCoopers as auditors of the Group with immediate effect; and (ii) appoint ZHONGHUI ANDA CPA Limited as auditors of the Group in place of PricewaterhouseCoopers with immediate effect and to hold office until the conclusion of the next annual general meeting of the Company. For further details, please refer to the Company's announcements dated 29 May 2020, 8 June 2020 and 3 July 2020, and the Company's circular dated 11 June 2020.

ZHONGHUI ANDA CPA Limited, being eligible, will offer themselves for re-appointment, and a resolution to this effect shall be proposed at the forthcoming Annual General Meeting.

Save as disclosed above, there had been no change in the Company's auditors in any of the preceding three years.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 25 September 2020 to Wednesday, 30 September 2020, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Wednesday, 30 September 2020. All transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 24 September 2020.

By order of the Board
ZHANG Qiang
Chairman

Hong Kong, 28 August 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2019, the Group undertook strategic restructuring by implementing game business upgrade strategy and diversifying the product portfolio of its internet micro-credit business. The Group was able to maintain a similar level of total revenue from continuing operations for 2019 of approximately RMB124 million as compared to that for 2018.

The Group entered into the VR game business under the brand "Player No.1" since 26 June 2019 through the Xigua Acquisition. As at 31 December 2019, the Group had operated 129 offline VR experience stores in the PRC to offer customers with self-developed and licensed interactive VR games. During the first six complete months since consolidation of such VR experience stores, the average number of monthly paying members of the VR game business had reached approximately 4,234 and the revenue from VR game business was approximately RMB26 million. As a result of the effort in containing the spread of the Epidemic around the country, physical outdoor consumption by the public has declined significantly. Our VR game business offers offline services, therefore the physical stores under the Group were severely affected. As announced in the Group's announcement on 10 March 2020, we planned to retain not more than 10 best performing direct sales stores under the offline VR game business. Meanwhile, the legacy online game business continues to focus on the overseas market strategy. The Group will continue to monitor and optimize the return on investment of the legacy online game business.

As to our internet micro-credit business, the Group had diversified the product portfolio to include the lending of corporate loans. This strategic adjustment has enabled the Group to provide SMEs with practical and flexible mid-term financing solutions. The Group had served more than 1.8 million cumulative borrowers as at 31 December 2019 and resulted in an accumulated loan financing of approximately RMB1.4 billion during the year of 2019.

As for the recoverability problem associated with the Affected Loans, the Group will learn the lesson and be more prudent in managing its corporate loan business, and will strengthen its risk management.

Game Business

The Group started its VR game business under the brand "Player No.1" through the Xigua Acquisition since 26 June 2019. The following tables set forth certain operating statistics relating to the VR game business of the Group in the periods indicated:

	As at 31 December	
	2019	2018
VR Game		
Number of stores[1]	**129**	–

	Year ended 31 December	
	2019	2018
VR Game		
Average monthly paying members[2]	**4,234**	–
Monthly average paying amount per paying member (RMB)[2]	**420**	–

Notes:

(1) VR experience stores which were in operation as at 31 December 2019.

(2) Recorded since July 2019.

Internet Micro-credit Business

The following table sets forth certain operating statistics relating to the Group's internet micro-credit business for the periods indicated:

	Year ended 31 December	
	2019	2018
Average balance of outstanding performing loans (RMB in million)[1]	**342**	276
Average size of the loans (RMB)[2]	**4,852**	3,601
Number of loans originated[3]	**282,540**	640,704

Notes:

(1) Calculated as the average balance of the principal amount of the outstanding performing loans at the end of each month for the period indicated.

(2) Calculated as the total amount of loans divided by the total number of loans originated for the period indicated.

(3) Number of loans originated by the internet micro-credit business for the period indicated.

The Group provides two types of loans through the internet micro-credit business, namely, guaranteed loans and collateralised loans, to its customers in the PRC. The Group considers various factors in determining the applicable interest rate of a loan which include but not limited to (i) the relevant customer's background and credit history, (ii) whether the loan is secured or guaranteed, (iii) the value of the collaterals, if any; and (iv) the purpose and term of the loan.

The borrowers of the internet micro-credit business include both individual and corporate clients. The average balance of the outstanding performing loans for the year of 2019 had increased to approximately RMB342 million as compared to that of approximately RMB276 million for the year of 2018. This increase was primarily attributable to the corporate loan business.

As the loan size provided to corporate clients is generally larger than that to individual clients, the overall average loan sizes of the Group increased accordingly for the year of 2019.

The decline in the number of loans originated was mainly attributable to the general increase in average loan sizes and the decline in repeat borrowing frequency due to the longer loan term granted by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the Group's income statement for the year ended 31 December 2019 as compared to that for the year ended 31 December 2018:

	Year Ended 31 December		
	2019	2018	Change
	RMB'000	RMB'000	%
		(Restated)	
Continuing operations			
Revenue	**124,279**	129,440	–4.0%
Cost of revenue	**(93,862)**	(47,691)	96.8%
Gross profit	**30,417**	81,749	–62.8%
Selling and marketing expenses	**(15,828)**	(9,662)	63.8%
Administrative expenses	**(64,374)**	(50,998)	26.2%
Research and development expenses	**(29,443)**	(24,134)	22.0%
Other income	**25,811**	12,979	98.9%
Other (losses)/gains — net	**(533)**	88	–705.7%
Finance income-net	**1**	1,143	–99.9%
(Loss)/gain on dilution of investment in an associate	**(17)**	11,089	–100.2%
Loss on deregistration of subsidiaries	**(355)**	–	NM
Net loss from changes in the value of investments at fair value through profit or loss	**(4,715)**	–	NM
Loss on transfer of investment in an associate to equity investments at fair value through other comprehensive income	**(158)**	–	NM
Gain on fair value change of derivative financial instrument	**65,131**	–	NM
Share of profits of associates	**16,918**	13,857	22.1%
Impairment of assets in connection with a newly acquired business	**(142,507)**	–	NM
Impairment of financial assets measured at amortised cost	**(137,936)**	(39,144)	252.4%
Loss before income tax	**(257,588)**	(3,033)	8,392.8%
Income tax credit/(expense)	**13,143**	(1,915)	NM
Loss from continuing operations	**(244,445)**	(4,948)	4,840.3%
Discontinued operation			
Loss from discontinued operation	**(15,815)**	(315,074)	–95.0%
Loss for the year	**(260,260)**	(320,022)	–18.7%

Note: NM-Not meaningful.

MANAGEMENT DISCUSSION AND ANALYSIS

Continuing Operations

Revenue. Revenue decreased by approximately 4.0% to RMB124.3 million for the year ended 31 December 2019 from RMB129.4 million for the year ended 31 December 2018. The following table sets forth the revenue of the Group by segment for the year ended 31 December 2019 and 31 December 2018 respectively:

	Year Ended 31 December			
	2019		2018	
	(RMB'000)	**(% of Total Revenue)**	(RMB'000) (Restated)	(% of Total Revenue)
Revenue by Segment				
— Game business	**83,578**	**67.3**	90,886	70.2
— Internet micro-credit business	**40,701**	**32.7**	38,554	29.8
Total Revenue	**124,279**	**100.0**	129,440	100.0

— The game business comprises the online legacy game business and the VR game business. Revenue generated from the Group's game business decreased by approximately 8.0% to RMB83.6 million for the year ended 31 December 2019 from RMB90.9 million for the year ended 31 December 2018. Such decrease was a mix effect of the decrease in revenue generated from the legacy online game business and the revenue generated from the new VR game business. The revenue generated from the VR game business was approximately RMB26.0 million for the year ended 31 December 2019. The VR game business generated revenue by offering VR games to the customers in the offline VR experience stores, providing promotional services to its business partners and collecting of franchising fee.

— Revenue generated from the Group's internet micro-credit business increased by approximately 5.6% to RMB40.7 million for the year ended 31 December 2019 from RMB38.6 million for the year ended 31 December 2018. Such increase was mainly attributable to the interest income generated from corporate loans provided by the Group in 2019.

Adjusted EBITDA/(LBITDA). Adjusted LBITDA was RMB162.0 million for the year ended 31 December 2019 while adjusted EBITDA was RMB31.0 million for the year ended 31 December 2018. The following table sets forth the adjusted EBITDA/(LBITDA) of the Group by segment for the years ended 31 December 2019 and 2018:

	Year ended 31 December		
	2019	2018	Change
	RMB'000	RMB'000	%
		(Restated)	
Adjusted EBITDA/(LBITDA) by Segment			
Game business	**(90,683)**	(12,062)	651.8%
Internet micro-credit business	**(88,184)**	18,153	NM

Note: The difference between the sum of adjusted EBITDA/(LBITDA) of the game and internet micro-credit business above and the total adjusted EBITDA/(LBITDA) of the Group is from (loss)/gain on dilution of investment in an associate and Share of profits of associates.

NM-Not meaningful.

— Adjusted LBITDA in respect of the Group's game business increase to RMB90.7 million for the year ended 31 December 2019 from RMB12.1 million for the year ended 31 December 2018. The enlarged loss was primarily attributable to the VR game business. The VR game business was in the initial phase of development and required substantial investment to be in place including but not limited to store rental, and salaries for operational personnel. Besides, impairment of property and equipment and right-of-use assets were made due to the deteriorating operational performance of the VR game business.

— Adjusted LBITDA in respect of the Group's internet micro-credit business was RMB88.2 million for the year ended 31 December 2019 while adjusted EBITDA of which was RMB18.2 million for the year ended 31 December 2018. This was attributable to the allowance for impairment for outstanding loan receivables of the Group's internet micro-credit business for the year ended 31 December 2019.

Cost of revenue. Cost of revenue increased by approximately 96.8% to RMB93.9 million for the year ended 31 December 2019 from RMB47.7 million for the year ended 31 December 2018. Such increase was primarily attributable to the increase in the cost of revenue due to the expansion of the VR game business. The cost of revenue of the VR game business includes rental of the offline VR experience stores, salaries of the in-store operation team and depreciation of VR equipment and renovation of the offline VR experience stores. The increase in cost of revenue was partially offset by the decrease in revenue sharing costs of the Group's online legacy game business in line with the revenue decrease of our existing online games. For the year ended 31 December 2019, the percentage of cost of revenue to total revenue increased to 75.5% (2018: 36.8%).

Selling and marketing expenses. Selling and marketing expenses increased by approximately 63.8% to RMB15.8 million for the year ended 31 December 2019 from RMB9.7 million for the year ended 31 December 2018. Such increase was primarily attributable to the promotion and marketing expenses incurred by the VR game business in order to attract potential players online and offline.

Administrative expenses. Administrative expenses increased by approximately 26.2% to RMB64.4 million for the year ended 31 December 2019 from RMB51.0 million for year ended 31 December 2018. Such increase was primarily attributable to the additional administrative expenses of the Group' new VR game business and the additional audit fee.

Research and development expenses. Research and development expenses increased by approximately 22.0% to RMB29.4 million for the year ended 31 December 2019 from RMB24.1 million for the year ended 31 December 2018. Such increase was primarily attributable to the employee salaries and benefit for the research and development department of the VR game business as the Group started the VR game business since the end of June 2019.

Other income. Other income increased to RMB25.8 million for the year ended 31 December 2019 from RMB13.0 million for the year ended 31 December 2018. Such increase was primarily attributable to the distribution of profit from one of the investee companies of the Group during the year of 2019.

Other (losses)/gains — net. Other losses — net was RMB0.5 million for the year ended 31 December 2019 (2018: other gains — net of RMB0.1 million). The other losses — net in 2019 was mainly incurred as a result of the loss on disposals of property and equipment of the VR game business due to the VR game business reduction plan.

Finance income — net. Finance income — net for the year ended 31 December 2019 was RMB1 thousand (2018: RMB1.1 million). The finance income — net represents the interest income from short-term deposits and restricted cash net off by the interest expense as a result of the newly adopt International Financial Reporting Standard ("**IFRS**") 16 Lease.

(Loss)/gain on dilution of investment in an associate. Loss on dilution of investment in an associate was RMB0.02 million for the year ended 31 December 2019, while gain on dilution of investments accounted for using the equity method was RMB11.1 million for the year ended 31 December 2018. The gain in 2018 was attributable to the increase in valuation of our investments as a result of the fund raising activities carried out by one of the Group's investees.

Net loss from changes in the value of investments at fair value through profit or loss. The Group recognized net loss from changes in the value of investments at fair value through profit or loss of RMB4.7 million for the year ended 31 December 2019 mainly due to the impairment of one of the Group's financial assets at fair value through profit and loss.

Loss on transfer of investment in an associate to equity investments at fair value through other comprehensive income. The Group recognized loss on transfer of investment in an associate to equity investments at fair value through other comprehensive income of RMB0.2 million for the year ended 31 December 2019 mainly due to the gain on dilution of one of the Group's investments.

Gain on fair value change of derivative financial instrument. The Group recognized gain on fair value change of derivative financial instrument of RMB65.1 million for the year ended 31 December 2019 due to the non-fulfillment of profit guarantee from one of the Group's investments.

Pursuant to the investment agreement, the Vendor, the KongZhong Group and Beijing Xigua jointly and severally guaranteed and undertook to the Group that the net profit after tax of Beijing Xigua for the period from 1 June 2019 to 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021 (the "Guarantee Periods") would not be less than RMB43 million, RMB52 million and RMB62 million ("**Thresholds**", and each of them a "**Threshold**") respectively (the "Profit Guarantee"). Completion of the Transaction took place on 26 June 2019, pursuant to which the Company paid a cash consideration of RMB20 million to subscribe the new registered capital of Beijing Xigua allotted and issued a total of 22,268,908 Consideration Shares to KongZhong at the issue price of HK$6.876 per consideration share, credited as fully paid, pursuant to the investment agreement. All the consideration shares are held under an escrow account designated by KongZhong and will be released to KongZhong in batches subject to the Profit Guarantee for the respective Guarantee Period being fulfilled.

The Actual Net Profits of Beijing Xigua for the period from 1 June 2019 to 31 December 2019 was fall short of the Threshold of RMB43 million and the Profit Guarantee for the period from 1 June 2019 to 31 December 2019 as contemplated under the investment agreement was not be fulfilled.

The fair value of profit guarantee of Beijing Xigua was RMB15.1 million and RMB80.2 million at date of acquisition and 31 December 2019 based on valuation performed by Flagship Appraisals and Consulting Limited, an independent qualified professional valuer, by using income approach.

Loss on deregistration of subsidiaries. Loss on deregistration of subsidiaries was RMB0.4 million for the year ended 31 December 2019. This loss is related to the deregistration of the subsidiaries of the Group.

Share of profits of associates. The Group recognised share of profits of associates of RMB16.9 million for the year ended 31 December 2019 (2018: RMB13.9 million). This income is related to the share of profits of the Group's invested associated companies in respective years, during which the invested associated companies achieved positive financial performances.

Impairment of assets in connection with a newly acquired business. The Group recognized impairment of intangible assets of RMB94.7 million for the year ended 31 December 2019 mainly attributing to the full impairment of goodwill and identifiable intangible assets arising from the Xigua Acquisition completed on 26 June 2019. Besides, as the Group planned to retain not more than 10 best performing direct sales stores under the offline VR game business in view of the potential decline of outdoor consumption, the Group recognized impairment of property and equipment of RMB25.4 million, impairment of store rental deposit of RMB11.3 million, and impairment of right-of-use assets (as a result of the adoption of IFRS 16 Lease) of RMB11.0 million for the discontinued operating experience stores.

Impairment of financial assets measured at amortised cost. Impairment of financial assets measured at amortised cost for the year ended 31 December 2019 was RMB137.9 million, as compared to RMB39.1 million for the year ended 31 December 2018. The impairment in 2019 was primarily attributable to the allowance for impairment for outstanding loan receivables of the internet micro-credit business and the receivables from the disposal of the equity interest in Jianlicai Group.

Income tax credit/(expense). The Group recognised income tax credit of RMB13.1 million for the year ended 31 December 2019 while the income tax expense was RMB1.9 million for the year ended 31 December 2018. The income tax credit for the year ended 31 December 2019 was mainly attributable to subsequent changes in the deferred tax liabilities with the amortisation and impairment of identified intangible assets arising from the Xigua Acquisition and the deferred tax assets from one of the Feidong PRC Operational Entities.

Loss from continuing operations. The Group recognised loss from continuing operations of RMB244.4 million for the year ended 31 December 2019 as compared to RMB4.9 million for the year ended 31 December 2018. The increase in the loss from continuing operations was primarily attributable to the impairment of goodwill and identifiable intangible assets arising from the Xigua Acquisition, the allowance for impairment for outstanding loan receivables of the internet mirco-credit business and the receivables from the disposal of the equity interest in Jianlicai Group.

Discontinued Operation

Loss from discontinued operation. Loss from discontinued operation is the operating results of Jianlicai. Loss from discontinued operation was RMB15.8 million for the year ended 31 December 2019 and RMB315.1 million for the year ended 31 December 2018. This loss was primarily attributable to the operational difficulties in Jianlicai. As stated in the section headed "Letter from the Board — Reasons and Benefits for the Disposal — Operational Difficulties Faced by Jianlicai" in the circular of the Company dated 12 July 2019, management of Jianlicai comprehensively adjusted its business model in July 2018 in order to embrace the spirit of regulations. As a result of such change, "wealth management plan", the base of Jianlicai's valuation on goodwill and identifiable intangible assets, had ceased and will not be re-launched in the foreseeable future. As stated in the announcement of the Company dated 17 August 2018, an after-tax impairment of RMB320.5 million has been made on Jianlicai's goodwill and identifiable intangible assets.

NON-IFRSS MEASURES — EBITDA AND ADJUSTED EBITDA

To supplement the consolidated results of the Group which are prepared in accordance with IFRSs, certain non-IFRSs measures, including EBITDA and adjusted EBITDA, have been presented. These unaudited non-IFRSs financial measures should be considered in addition to, and not as a substitute for, the measures of the Group's financial performance which have been prepared in accordance with IFRSs. The Group's management believes that these non-IFRSs financial measures provide investors with useful supplementary information to assess the performance of its core operations by excluding certain non-cash and non- recurring items. The EBITDA and adjusted EBITDA/(LBITDA) are unaudited figures.

The following table sets forth the reconciliation of the Group's non-IFRSs financial measures for the years ended 31 December 2019 and 2018, to the nearest measures prepared in accordance with IFRSs:

	Year ended 31 December	
	2019	2018
	(RMB'000)	(RMB'000)
		(Restated)
Loss from continuing operations	**(244,445)**	(4,948)
Add:		
Depreciation and amortisation	**46,327**	2,893
Net interest income	**(5,297)**	(10,205)
Income tax credit/expense	**(13,143)**	1,915
LBITDA (unaudited)	**(216,558)**	(10,345)
Add:		
Share-based compensation	**3,612**	2,007
Impairment of intangible assets arising from business combination	**93,680**	–
Impairment of other receivables arising from disposal of investment in an associate	**–**	39,375
Impairment of other receivables arising from disposal of investment in a subsidiary	**33,203**	–
Changes in the value of investments at fair value through profit or loss	**4,715**	–
Loss on transfer of investment in an associate to equity investments at fair value through other comprehensive income	**158**	–
Loss on deregistration of subsidiaries	**355**	–
Gain on fair value change of derivative financial instrument	**(65,131)**	–
Dividends received from equity investments at fair value through other comprehensive income	**(16,000)**	–
Adjusted (LBITDA)/EBITDA (unaudited) from continuing operations	**(161,966)**	31,037

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION

As at 31 December 2019, the total equity of the Group amounted to RMB664.0 million as compared to that of RMB847.7 million as at 31 December 2018. Such decrease was primarily attributable to the full impairment of goodwill and identifiable intangible assets arising from the Xigua Acquisition, the allowance for impairment for outstanding loan receivables of the internet micro-credit business and the receivables from the disposal of the equity interest in Jianlicai.

The Group's net current assets amounted to RMB536.8 million as at 31 December 2019 as compared to that of RMB745.3 million as at 31 December 2018. This decrease was primarily attributable to the allowance for impairment for outstanding loan receivables of the internet micro-credit business, the deconsolidation of Jianlicai's net current assets as it was no longer under the control of the Group as at 31 December 2019 and the working capital utilization to support Beijing Xigua's operation.

LIQUIDITY AND FINANCIAL RESOURCES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash at bank and on hand	**315,285**	751,356
Cash at other financial institutions	**2,674**	5,662
Short-term deposits	**68,862**	41,534
Total	**386,821**	798,552

The Group's total cash, cash equivalent and short-term deposits amounted to RMB386.8 million as at 31 December 2019 as compared to that of RMB798.6 million as at 31 December 2018. The decrease was primarily attributable to: (i) the development of internet micro-credit business, which had lowered the cash balance and increased the balance of loan receivables, (ii) the deconsolidation of Jianlicai's cash balance, and (iii) the working capital utilization to support Beijing Xigua's operation.

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the cost of funding, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in RMB, followed by USD.

As at 31 December 2019, the Group's gearing ratio (calculated as bank borrowing divided by total assets) was nil (as at 31 December 2018: nil), which means that the Group did not have any bank borrowing balance as at 31 December 2019. The borrowing requirements of the Group are not subject to seasonality.

MATERIAL ACQUISITION AND DISPOSAL

Save as disclosed below, during the year ended 31 December 2019, the Group did not perform any other material acquisition or disposal.

Acquisition of 69.84% equity interest in Beijing Xigua

On 24 April 2019, the Group announced the Xigua Acquisition where the target group is principally engaged in the research, development and operation of large space VR technologies and VR games. The completion of the Xigua Acquisition took place on 26 June 2019. The consideration has been settled through (i) the subscription in the registered capital of Beijing Xigua in cash of RMB20,000,000 by the Group, and (ii) the allotment and issue of 22,268,908 new ordinary shares of the Company to the entity(ies) designated by the vendor for the equity transfer. For details of the Xigua Acquisition, please refer to the announcements of the Company dated 9 April 2019, 24 April 2019, 24 May 2019 and 26 June 2019 respectively. For information regarding Beijing Xigua's subsequent development, please refer to "Non-fulfillment of Profit Guarantee" section.

Disposal of 54.54% equity interest in JLC (Cayman)

On 26 April 2019, the Group announced the disposal of 54.54% of the entire issued share capital of JLC (Cayman), which was the entire equity interest held by the Company. JLC (Cayman) was principally engaged in financial information service in the PRC through the operations of websites and mobile phone applications under the brand Jianlicai. The completion of the JLC Disposal had taken place on 6 September 2019. The consideration has been settled through collection in cash of RMB14,229,900, leaving a receivable of RMB33,203,100, the second instalment (the "**Second Instalment**"), supposed to be paid on or before 6 March 2020. As at the date of this report, the Second Instalment has not been collected. The Company has engaged legal advices to take further action in order to collect the Second Instalment. For details of the Disposal of JLC, please refer to the announcements of the Company dated 26 April 2019 and 9 July 2019, the circular of the Company dated 12 July 2019 and the poll results of the extraordinary general meeting of the Company held on 29 July 2019. For details of the payment of the Second Instalment, please refer to the announcement of the Company dated 11 December 2019 and 10 March 2020.

NON-FULFILLMENT OF PROFIT GUARANTEE

References are made to the announcements of the Company dated 24 April 2019, 21 November 2019, 10 March 2020 and 19 March 2020 respectively (the "**Announcements**"). Unless otherwise stated herein, capitalized terms used in this section shall have the same meanings as those defined in the Announcements.

As disclosed in the Announcements, the vendor, the KongZhong Group and Beijing Xigua jointly and severally guaranteed and undertook to the Investor that the Actual Net Profits for the Guarantee Periods would not be less than RMB43,000,000, RMB52,000,000 and RMB62,000,000.

Based on the management accounts of Beijing Xigua, Beijing Xigua recorded an unaudited cumulative loss for the period from 1 June 2019 to 31 December 2019, falling short of over RMB43 million as compared to the Threshold of RMB43 million. The non-fulfilment of the profit guarantee was mainly due to the deteriorating operational performance of Beijing Xigua. As a result of the non-fulfilment of the Profit Guarantee, the Company has elected to request from the vendor, KongZhong Group and Beijing Xigua for a compensation by way of cash in full of approximately RMB150,152,857 and accordingly, on 10 March 2020, the Company has instructed its PRC legal adviser to issue the Demand Letter to the vendor, KongZhong Group and Beijing Xigua, stating the Company's decision to opt for a compensation by way of cash in full in the amount of RMB150,152,857 within 30 days upon the date of receipt of the Demand Letter.

On 18 March 2020, the Company received the Reply Letter from the Counterparty in which the Counterparty objected to the appointment of the Beijing Xigua's Auditor for the purpose of conducting the audit work for Beijing Xigua for the period from 1 June 2020 to 31 December 2020, and indicated that it was unable to confirm the profit or loss figure of Beijing Xigua as provided by the Company as at the date of the Reply Letter. The Company has made communications with the Counterparty from 20 February 2020 to 29 February 2020 and proposed the appointment of the Beijing Xigua's Auditor. The Company has also required confirmation from the Counterparty on or before 28 February 2020. However, up till 28 February 2020, the Counterparty had not confirmed. Since no objections from the Counterparty was received before the deadline, the Company deemed it as an acceptance of the appointment of Beijing Xigua's Auditor by the Counterparty. The Company reserves all rights under relevant laws and regulations to claim compensation arising from the Investment Agreement.

SIGNIFICANT INVESTMENT

During 2019, the Group held a significant investment in an associate detailed as follow:

Company name	Date of incorporation	Carrying amount as at 31 December 2019 RMB'000	Investment Cost RMB'000	Registered capital RMB'000	Percentage of ownership interest attributable to the Group as at 31 December 2018	2019
Share Times	23 February 2011	49,244	4,000	24,080,324	10.38%	10.38%

Share Times is a company that develops and operates intellectual properties of celebrities including design, promotion, and sales of IPs. In 2019, Share Times had contributed share of income of investments accounted for using the equity method of approximately RMB14 million. The Group will continue supporting the business development of Share Times, and seek synergy between Share Times and other investments of the Group to maximize their performances.

MATERIAL IMPAIRMENT

(1) Impairment on the intangible assets of Beijing Xigua

Reasons for the impairment

Since September 2019, the performance of Xigua Group has been lower than expected. In view of the declining performance, the management team of Xigua Group focused on new business development to attract new franchisees and business partners, and signed service agreements in respect of commercial promotion and campaigns with certain business partners. However, following the issue of the unaudited consolidated management accounts of Beijing Xigua as of the end of October 2019 and a series of announcements issued by the Company in November 2019, only a small amount of income from the above agreements has been recognized. In addition, certain business partners contracted before September 2019 proposed to change the terms to reduce cooperation, and the cooperation with newly-approached franchisees and business partners had not yet confirmed. In light of the rapid deterioration in operating environment, the Group has arranged for communications between the management team of Beijing Xigua and its business partners in an attempt to improve the current situation.

However, as Ms. Li Luyi, a former chief responsible officer of Beijing Xigua and a former executive director and former chief executive officer of the Company, was unreachable from the end of October to early November 2019 and resigned on 7 November 2019, Beijing Xigua made little progress in communications with its business partners. Mr. Han Jun was then appointed as an executive director and chief executive officer of the Company to replace Ms. Li Luyi.

Taking into account of the rapid deterioration in operating environment of Beijing Xigua since October 2019, it is expected that the actual net profits of Beijing Xigua for the period from 1 June 2019 to 31 December 2019 may be less than the threshold of RMB43 million, resulting in the non-fulfilment of the profit guarantee for the period from 1 June 2019 to 31 December 2019 as stipulated in the investment agreement. To assist Beijing Xigua to improve its current situation, the Group intends to provide Beijing Xigua with certain financial assistance.

In addition, in face of the outbreak of the Epidemic in the PRC since January 2020, a number of provinces and cities in the PRC activated a level I response, which is the highest-level response that can be raised for major public health emergencies, and adopted various strict measures to curb the spread of the Epidemic, including postponing and imposing restriction on the date of resumption of work after the Lunar New Year holidays, enforcing quarantine and imposing ban on travel and logistics at provincial and/or municipal level. Given that crowd gathering is restricted, offline services industry has borne the brunt of the Epidemic. Beijing Xigua's physical stores under the Group were severely affected. As the Epidemic continues and it remains unknown as to when the situation will be stabilized, the recovery of offline entertainment consumption remains uncertain. After prudent consideration of the business reduction plan submitted by Beijing Xigua's management team and having obtained the consent from all other shareholders of Beijing Xigua, the Board agreed with Beijing Xigua's proposal on retaining not more than 10 best performing direct sales stores and closing down other direct sales stores which are expected to record a significant decrease in revenue due to the Epidemic, so as to minimize the adverse impact of the Epidemic on the operations and financial position of the Company.

By adopting store opening plan as its key business model in the past, Beijing Xigua achieved profit guarantee through the rapid growth of self-operated stores and franchised stores. The valuation of goodwill and identifiable intangible assets arising from the acquisition of 69.84% equity interest in Beijing Xigua was based on the continuous adoption of such business model, i.e. the store opening plan. It is expected that the store opening plan and profit guarantee will not be implemented and achieved in the foreseeable future.

Details of the Impairment Report:

In view of the major changes in the operating environment in the second half of 2019, the Group performed detailed assessment on the goodwill and identifiable intangible assets of Beijing Xigua in accordance with IFRS. According to IAS 36 Impairment of Assets ("**IAS 36**"), while identifying the above-mentioned impairment indicators, the Group is required to perform impairment test for the goodwill and identifiable intangible assets arising from the acquisition of Beijing Xigua by comparing the recoverable amount of the assets with their respective carrying amounts. If the recoverable amount exceeds the carrying amount, the asset under assessment shall be regarded as not impaired. If the recoverable amount of the asset is less than its carrying amount, an impairment loss shall be recognized. Recoverable amount of an asset is defined as the higher of (i) its fair value less costs of disposal, and (ii) its value in use. 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. Value in use is the present value of the future cash flows expected to be derived from an asset. In accordance with the relevant requirements under IAS 36, and based on the principle of investor protection, while identifying the above-mentioned impairment indicators, the Group performed an impairment test for the goodwill and identifiable intangible assets arising from the acquisition of Beijing Xigua. The Group adopted a discounted cash flow ("**DCF**") method to determine the recoverable amount of the goodwill and identifiable intangible assets arising from the acquisition of Beijing Xigua.

As mentioned in the announcements dated 21 November 2019 and 10 March 2020, in view of the underperformance of Beijing Xigua in the second half of the year and the outbreak of the Epidemic in the PRC since January 2020, the management of Beijing Xigua decided to restructure its future store opening plan and adjust its financial projections. After prudent consideration with its external advisors, the Group recorded an impairment of RMB94.7 million (and an after-tax impairment of RMB88.2 million) for the goodwill and identifiable intangible assets arising from the acquisition of Beijing Xigua. According to the actual operating results of Beijing Xigua in the second half of 2019, (i) the income and profits from its existing stores were much less than expected; (ii) no income was generated by certain existing self-operated stores, and (iii) there was a delay in its franchised store plan.

Key assumptions

The key assumptions adopted by the Group included, but not limited to, the following:

(a) the financial projections of the investee, such as store opening/closing plan, long term revenue growth rate and long-term pre-tax operating margin, have been prepared based on business adjustments, reflecting estimates which have been scrutinised and modified, after due and careful consideration by management of the Group; and

(b) the adopted discounted rate is with reference to the public and statistical information (e.g. weighted average capital cost in the market) obtained from sources which are deemed to be reputable, accurate and reliable.

(2) Impairment on loan receivables from Yunke

As at 31 December 2019, the Group's balance of outstanding loans were RMB261.1 million, of which RMB115.8 million, RMB10.0 million and RMB135.3 million were corporate loans, offline individual loans and online individual loans, respectively. The borrowers of certain overdue loans were unreachable. Please refer to the announcements of the Company dated 11 December 2019, 23 December 2019, 26 February 2020 and 7 May 2020 for details.

The Group is carefully assessing the recoverability of part of the outstanding loan receivables (the "**Loan Receivables**"), its specific actions include:

(a) Communicating with borrowers to assess their willingness for repayment;

(b) Requesting data from borrowers, including financial reports of borrowers, borrowers' status in respect of other loans and guarantees provided, status of personal guarantors of the Loan Receivables, etc.;

(c) For borrowers with low repayment ability and willingness, recovering loans and realizing pledges by way of arbitration.

Due to the outbreak of the Epidemic in early 2020, certain borrowers have not resumed their normal working hours and the responses from legal system remained slow. As a result, the Group has not obtained sufficient details to conduct comprehensive recoverability assessment as at the Latest Practicable Date. Nevertheless, based on the information available, the Group considers that certain loans under the Loan Receivables have high recoverability risks. During the year ended 31 December 2019, the Company recorded impairment on loan receivables of RMB105.7 million.

The Group will closely monitor the borrowers' repayment ability subsequently and take certain measures, including but not limited to recover such amount through legal proceedings, in a timely manner.

(3) Impairment on receivables from the disposal of JLC

References are made to the announcement of the Company dated 26 April 2019 and the circular of the Company dated 9 July 2019 in relation to the share transfer agreement (the "**Disposal Agreement**") dated 26 April 2019 (supplemented and amended on 9 July 2019) entered into by and among the Company, The Blue Whale Tech Ltd., Best Hero Investments Limited (the "**Purchasers**") and Jlc Inc. ("**JLC**") for the disposal of 54.54% equity interests in JLC (the "**Disposal**").

According to the Disposal Agreement, 30% of its applicable amount of the original consideration in cash for the Disposal of RMB 47,433,000 (the "**Original Consideration**") shall be settled on the date of completion, while 70% of its applicable amount of the Original Consideration shall be settled within six months from the date of completion. As at the latest practicable date, the Company has received 30% of the Original Consideration.

In December 2019, the Company was informed by the Purchasers that, due to the recent market conditions and the increasing operational difficulties encountered by JLC as a result of the latest regulatory environment in the PRC affecting the P2P business, the Purchasers were of the view that the commercial value of JLC has dropped significantly and were not willing to fulfill their payment obligations for the remaining 70% of the Original Consideration.

Although the Company has been actively negotiating with the Purchasers to reach a consensus on a solution acceptable to the Company and the Purchasers, no consensus on a solution acceptable to both parties was arrived despite their efforts. As at 31 December 2019, the Company made impairment for receivables of RMB33.2 million for the remaining 70% of the Original Consideration.

FOREIGN EXCHANGE RISK

As at 31 December 2019, RMB45.7 million of the financial resources of the Group (as at 31 December 2018: RMB39.1 million) were held as deposits denominated in non-RMB currencies. The increase in the deposits denominated in non-RMB currencies was due to an active exchange exposure management in view of the rising value of USD against RMB. The Group will continue to monitor its foreign exchange risk exposure to better preserve the Group's cash value.

CAPITAL EXPENDITURES

	Year ended 31 December	
	2019	2018
	(RMB'000)	(RMB'000)
	(Audited)	(Audited)
Capital expenditures		
— Purchase of property and equipment	**16,709**	4,309
— Purchase of intangible asset	**2,189**	–
Total	**18,898**	4,309

Capital expenditures (excluding business combination) comprise the purchase of property and equipment, such as VR equipment and leasehold improvement, and the purchase of intangible assets, such as VR game licensing fee and IT systems upgrade.

PLEDGE OF ASSETS

As at 31 December 2019, the Group had a pledge of assets of RMB1.0 million (as at 31 December 2018: RMB0.9 million) as restricted cash for corporate credit card deposits.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant unrecorded contingent liabilities (as at 31 December 2018: nil).

HUMAN RESOURCES

As at 31 December 2019, the Group had 615 full-time employees (as at 31 December 2018: 419), the vast majority of whom are based in the PRC.

Details of the Group's remuneration policies and training schemes, share option schemes and restricted share unit scheme are set out in the Report of Directors in this annual report.

POST BALANCE SHEET EVENT

(i) An alleged lawsuit relating to right of publicity

On 22 April 2020, the Company announced that there were certain recent media reports reporting that Ms. Selena Gomez, an American singer, songwriter, actress, and television producer ("Ms. Gomez"), has filed a lawsuit (the "Lawsuit") against Mutant Box and Guangzhou Feidong Software Technology Co., Ltd. ("GZ Feidong"), both being subsidiaries of the Company, alleging that Mutant Box and GZ Feidong have portrayed Ms. Gomez's character on, and profited off her likeness for, a mobile fashion game, "Clothes Forever" without the consent of Ms. Gomez.

As at the date of this report, upon reasonable enquiry being made with the relevant personnel of Mutant Box and GZ Feidong, neither Mutant Box nor GZ Feidong had received any official documents and/or notice relating to the alleged Lawsuit.

Up to the date of these consolidated financial statements, neither Mutant Box nor GZ Feidong had received any official notices or orders relating to the alleged lawsuit, the progress of the matter is uncertain in the future.

(ii) Frozen Shares of Certain PRC Operational Entities

Pursuant to the requirements of a civil paper (Document 2019 Yue 0106 Caibao 43) issued by a court in the PRC (the "Court"), legal shares of 23.75% (representing paid up capital of RMB2,375,000), 23.75% (representing paid up capital of RMB2,375,000) and 20.94% (representing paid up capital of RMB2,094,000) of Feiyin, Weidong and Jieyou, respectively, which are held by Mr. Wang Dongfeng (the "Mr. Wong") (collective defined as the "Frozen Shares") have been frozen by the Court due to lawsuits undertaken against Mr. Wang as a defendant. The frozen period is from 26 February 2019 to 25 February 2021. During the frozen period, the Frozen Shares cannot be transferred to other parties without the agreement of the Court, and the Frozen Shares might also be demanded by the Court to be disposed in order to settle any damages, as determined by the Court, arising from the lawsuits.

The directors of the Company, based on the advice of its legal advisor, consider that the Contractual Arrangements are in compliance with relevant PRC laws and regulations and are legally binding and enforceable. There are no significant change for the Contractual Arrangements.

RISKS AND HURDLES

Although the Group has successfully established its internet micro-credit business, there are certain risks that could adversely affect the Group's operations and financial results due to the immaturity of the fintech market in the PRC. The major hurdles may include (i) the implementation of new policies or any amendment to current policies by the governments in the PRC in relation to internet micro-credit regulations, (ii) the credit risk of loans becoming uncollectable, (iii) the inability of the main strategic business partners to provide sustainable services, (iv) the collapse of real estate market or other markets causing the decrease in the value of the collaterals granted to the Group, (v) new internet micro-credit products not recognised by market, (vi) loss of key employees, and (vii) the financial risks resulting from inappropriate decision made by the management of the internet micro-credit business.

As to the established online legacy game business operated by the Group, the major hurdles may include (i) delay in game launches, (ii) mismatch between games developed and the market expectations, (iii) loss of key employees, (iv) technical issues that hamper the Group's ability to collect fees and data, and update games, and (v) tight control in game related regulations and policies in the PRC all of which will have an adverse effect on the Group's performance.

On 26 June 2019, the Group completed the Xigua Acquisition, which had strengthened the Group's game business by providing VR games in stores across the PRC. The major hurdles may include (i) the recognition of VR concept by the market being lower than expectation, (ii) delays of game launches, (iii) games developed being unable to meet market expectations at their launch, (iv) the speed of opening stores being slower than expectation, (v) technical issues affecting user experience and existing VR games operation, (vi) damages of fixed assets including VR equipment caused by accidents which were not covered by the existing insurances, (vii) being unable to recruit sufficient well-trained VR sales and managers in the stores, (viii) departure of key employees, (ix) the market share being seized by our competitors, (x) the capital shortfall between the current cash level and the budget of the expanding stores business plan before the financing solution being implemented, and (xi) the operating stores shut down due to contagion.

In addition, the Group is exposed to risks such as fluctuation of foreign exchange, impairment loss due to invested companies' underperformance or contract party becoming insolvent, other unexpected one-off restructuring costs, and failures of certain material litigations or arbitrations, all of which will have an adverse effect on the Group's performance.

Since 2014, the Group has made investments in the internet, media and technology industry in the PRC with a remaining value of approximately RMB116.6 million post investment impairment and losses as at 31 December 2019, out of which approximately RMB56.6 million was classified as "investments in associates".

In the year of 2019, some of the Group's investments achieved higher profits compared to the same period of last year. Along with the better performance of these investments, the Group can focus more on exploring potential opportunities in relevant industries to support the development of the Group's business, such as the emerging technologies on the internet. However, it is difficult to judge whether these investments could survive in the market with increasing competition or the technologies developed by these investments would be suitable to the application scenarios. Therefore, potential impairments or write-offs may occur.

FUTURE PLANS

Due to the Epidemic in the first quarter of 2020, the global economy had witnessed huge impacts in all businesses.

Because of the long hours staying at home, there were new opportunities in areas such as online entertainment, online education, online shopping, and online working. The Group plans to closely monitor the developments of these opportunities, and evaluate relevant businesses if their growths are sustainable after the Epidemic. And if the Group identifies any good investment chance with appropriate valuation, it will not hesitate to seize the opportunity.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

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

Save as disclosed in this Corporate Governance Report in relation to the deviations from code provision A.2.1 of the CG Code, the Directors consider that the Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2019.

A. The Board

1. Roles and Responsibilities of the Board

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

The Board, after considering the advice and recommendations from the Board committees, monitors the Group's operating and financial performance and ensures that effective governance and sound internal control and risk management systems are in place. Significant matters which may have an impact on the performance of the Group are reserved for the Board's consideration and approval, including:

— approval and monitoring of all major policies of the Group;

— overall strategies and budgets;

— internal control and risk management systems;

— notifiable and connected transactions;

— nomination of directors and company secretary; and

— other significant financial and operational matters.

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

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

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

2. Delegation of Management Function

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

— execution of overall strategies adopted by the Board;

— monitoring of budgets approved by the Board;

— implementation of internal control and risk management systems; and

— preparation of the annual and interim reports and the results announcements for the Board's approval.

Before entering into any significant transactions or commitments on the Company's behalf, senior management of the Company should obtain prior approval and authorization from the Board. The Board periodically reviews the above delegation arrangements to ensure the appropriateness of such arrangements.

3. Board Composition

As at the Latest Practicable Date, the Board consisted of six Directors, one of whom was an Executive Director, two of whom were Non-executive Directors and three of whom were Independent Non-executive Directors.

During the year ended 31 December 2019 and up to the Latest Practicable Date, the Board comprised the following Directors:

Executive Directors	Mr. HAN Jun *(Chief Executive Officer)* *(appointed with effect from 11 November 2019,* *resigned as Chairman with effect from 27 April 2020)* Mr. ZHANG Yang *(Co-Chief Operations Officer)* *(retired with effect from 28 May 2019)* Mr. WANG Dongfeng *(Chairman and Chief Executive Officer)* *(resigned with effect from 30 September 2019)* Ms. LI Luyi *(Chairman and Chief Executive Officer)* *(appointed with effect from 14 April 2019 and* *resigned with effect from 7 November 2019)*
Non-executive Directors	Mr. ZHANG Qiang *(Chairman)* (appointed as Chairman with effect from 27 April 2020) Ms. LIANG Na (re-designated from an Executive Director to a Non-executive Director with effect from 1 July 2020)
Independent Non-executive Directors	Mr. HOW Sze Ming (resigned with effect from 30 April 2020) Mr. ZHAO Cong Richard (resigned with effect from 30 April 2020) Mr. WAN Joseph Jason (resigned with effect from 30 April 2020) Mr. WANG Dong (appointed with effect from 27 April 2020) Mr. WONG Chi Kin (appointed with effect from 27 April 2020) Mr. CUI Yuzhi (appointed with effect from 7 May 2020)

Biographies of the Directors are set out on pages 79 to 86 of this annual report.

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

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

During the year ended 31 December 2019, the Board has at all times met the requirements under Rules 3.10 and 3.10A of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board and at least one Independent Non-executive Director possesses appropriate professional qualifications, or accounting or related financial management expertise.

On 29 April 2020, each of Mr. HOW Sze Ming, Mr. ZHAO Cong Richard and Mr. WAN Joseph Jason tendered their respective resignation as an Independent Non-executive Director with effect from 30 April 2020. Upon the effective date of their resignation, the Board comprised two Executive Directors, one Non-executive Director and two Independent Non-executive Directors and the Audit and Compliance Committee comprised a Non-executive Director as a member. Accordingly, the Company was unable to comply with Rule 3.10(1) and Rule 3.21 of the Listing Rules. Following the appointment of Mr. CUI Yuzhi as an Independent Non-executive Director and the change in composition of Board committees on 7 May 2020, the Company has re-complied with Rule 3.10(1), Rule 3.21 and the relevant requirements under the Listing Rules. Please refer to the announcements of the Company dated 3 May 2020 and 11 May 2020 for further details.

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

4. *Appointment and re-election of directors*

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles.

All the Directors are subject to retirement by rotation at least once every three years. Any new director appointed to fill a causal vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall be eligible for re-election by the Shareholders.

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

The Nomination Committee is responsible for, inter alia, making recommendations to the Board on the appointment and reappointment of Directors and succession planning for the Directors. For further details on the functions of the Nomination Committee, please refer to the section headed "Board Committee — Nomination Committee" in this Corporate Governance Report.

5. *Induction and Continuing Development for Directors*

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has the appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Mr. HAN Jun who was appointed as Director on 11 November 2019 has received his induction and training upon his appointment.

Ongoing training and professional development are arranged by the Group for the Directors to keep abreast of latest trends and issues facing the Group. The Directors receives information related to the developments in the legal and regulatory regime and the business and market environments regularly to develop and refresh their knowledge and skills required in performing of their responsibilities.

For the year ended 31 December 2019, the Directors have studied the training materials prepared by the Group's legal advisors relating to key changes in the Listing Rules, continuing obligations of listed companies, director's responsibility and corporate governance practices.

In addition to the above-mentioned trainings provided by the Group to the Directors, members of the senior management of the Company have also studied the training materials relating to new regulations and compliance of listed companies.

6. *Director's liability insurance*

The Company has always been in strict compliance with the principles and requirements of the Listing Rules. As at 31 December 2019, the Company was not involved in any material litigation liabilities that were incurred by any Director. Each Director has the necessary qualification and experience required in performing his duty. The Company estimates that in the reasonably foreseeable future, there is limited risk that there would be any material event for which any Director shall take significant responsibility. Notwithstanding the above, the Company has arranged for appropriate directors' and officers' liability insurance in respect of legal action brought against the Directors.

7. *Board Meetings and General Meetings*

Number of Meetings and Directors' Attendance

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

The Board held four regular Board meetings during the year ended 31 December 2019 for the discussion of the Group's affairs, reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Group. In total, the Board held 16 Board meetings during the year ended 31 December 2019.

The attendance records of each Director at the Board meetings and the general meetings of the Company (whether in person or by means of electronic communication) held during the year ended 31 December 2019 are set out below:

Name of Director	Board meetings	General meetings
Mr. HAN Jun *(Chief Executive Officer) (appointed with effect from 11 November 2019 and resigned as Chairman with effect from 27 April 2020)*	4/4	0/0
Ms. LIANG Na	16/16	2/2
Mr. ZHANG Qiang *(appointed as Chairman with effect from 27 April 2020)*	15/16	0/2
Mr. HOW Sze Ming *(resigned with effect from 30 April 2020)*	16/16	2/2
Mr. ZHAO Cong Richard *(resigned with effect from 30 April 2020)*	14/16	2/2
Mr. WAN Joseph Jason *(resigned with effect from 30 April 2020)*	16/16	2/2
Mr. ZHANG Yang *(Co-Chief Operations Officer) (retired with effect from 28 May 2019)*	6/6	1/1
Mr. WANG Dongfeng *(Chairman and Chief Executive Officer) (resigned with effect from 30 September 2019)*	10/10	2/2
Ms. LI Luyi *(Chairman and Chief Executive Officer) (appointed with effect from 14 April 2019 and resigned with effect from 7 November 2019)*	6/8	1/2

Practices and Conduct of Meetings

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

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and Board committee meetings, notice is given to the Directors and Board committee members in a timely manner pursuant to the Articles and terms of reference of each Board committees respectively.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or Board committee meeting to keep the Directors apprised of the latest developments and financial position of the Group and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management of the Company whenever necessary.

Senior management of the Company attend meetings of the Board and Board committees as and when necessary to supply information on the Group's business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance practices and other major aspects of the Group.

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

The Articles contain provisions requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which any such Directors or any of their associates have a material interest.

B. Chairman and Chief Executive

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

During the year ended 31 December 2019, Mr. WANG Dongfeng had served as the chairman of the Board and the chief executive officer of the Company until 30 September 2019. Ms. LI Luyi had served as the chairman of the Board and the chief executive officer of the Company during the period from 30 September 2019 to 7 November 2019.

Mr. HAN Jun served as the chairman of the Board and the chief executive officer of the Company since 11 November 2019 up to 27 April 2020. In view of the ever-changing business environment in which the Group operates, the chairman of the Board and the chief executive officer of the Company must be proficient in IT knowledge and be sensitive to the fast and rapid market changes in the internet industry (such as the changes in the preference of users) in order to promote the businesses of the Group. The Board believed that the appointment of Mr. HAN Jun as both the chairman of the Board and the chief executive officer of the Company was conductive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently, given the extensive experience in the internet industry which Mr. HAN Jun possesses. The Board was of the view that the separation of the roles of the chairman and the chief executive may create unnecessary costs for the daily operations of the Group. Further, the Board considered that there was a strong independent element on the Board which can effectively exercise independent judgments in the course of decision-making. In addition, all major decisions in relation to the Company's matters were made in consultation with members of the Board and Board committees, as well as the senior management of the Company as appropriate.

On 27 April 2020, Mr. HAN Jun resigned as the chairman of the Board due to person reasons, and Mr. ZHANG Qiang, a Non-Executive Director, has been appointed as the chairman of the Board in place of Mr. HAN Jun. Upon the above change of chairman of the Board, the roles of chairman and chief executive of the Company vest in Mr. ZHANG Qiang and Mr. HAN Jun respectively, and the Company has re-complied with code provision A.2.1 of the Code.

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

C. Board Committees

During the year ended 31 December 2019, the Board had three Board committees, namely, the Remuneration Committee, the Audit and Compliance Committee and the Nomination Committee, for overseeing particular aspects of the Group's affairs. All of these three Board committees of the Company are established with defined written terms of reference.

The majority of the members of the Remuneration Committee, the Audit and Compliance Committee and the Nomination Committee during the year ended 31 December 2019 were Independent Non-executive Directors.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

1. Remuneration Committee

We have established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the code provisions under B.1 of the CG Code. During the year ended 31 December 2019, the Remuneration Committee comprised three members, of whom two were Independent Non-executive Directors and one was Non-executive Director:

Mr. ZHAO Cong Richard *(Chairman of the Remuneration Committee) (resigned with effect from 30 April 2019)*
Mr. HOW Sze Ming *(resigned with effect from 30 April 2019)*
Mr. ZHANG Qiang *(ceased to be a member of the Remuneration Committee with effect from 7 May 2020)*

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

The Remuneration Committee held three meetings during the year ended 31 December 2019 to, inter alia, (i) review the remuneration policy and structure of the Company, (ii) assess performance of the Executive Directors and approve their terms of the service contracts, (iii) make recommendations to the Board on determining the annual remuneration packages of the Directors and senior management of the Company, (iv) consider the remuneration and the terms of the service contracts of the newly appointed Directors, (v) make recommendations to the Board on the granting of RSUs pursuant to the Restricted Share Unit Scheme, and (vi) deal with other matters related to the foregoing.

The attendance records of the Remuneration Committee meetings held during the year ended 31 December 2019 are set out below:

Committee members	Meeting attended/Total
Mr. ZHAO Cong Richard *(Chairman of the Remuneration Committee) (resigned with effect from 30 April 2020)*	3/3
Mr. ZHANG Qiang *(ceased to be a member of the Audit and Compliance Committee with effect from 7 May 2020)*	3/3
Mr. HOW Sze Ming *(resigned with effect from 30 April 2020)*	3/3

Please refer to note 14 to the Financial Statements for the remuneration of the senior management by band.

2. *Audit and Compliance Committee*

We have established the Audit and Compliance Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the code provisions set out in paragraphs C.3 and D.3 of the CG Code. During the year ended 31 December 2019, the Audit and Compliance Committee comprised three members, of whom two were Independent Non-executive Directors and one was Non-executive Director:

Mr. HOW Sze Ming *(Chairman of the Audit and Compliance Committee) (resigned with effect from 30 April 2020)*
Mr. ZHANG Qiang *(ceased to be a member of the Audit and Compliance Committee with effect from 7 May 2020)*
Mr. WAN Joseph Jason *(resigned with effect from 30 April 2020)*

The then chairman of the Audit and Compliance Committee, Mr. HOW Sze Ming, holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

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

(i) reviewing and monitoring the relationship of the external auditors and the Group, particularly the independence, objectivity and effectiveness of the external auditor, (ii) providing an independent view of the effectiveness of the financial reporting process and risk management and internal control systems of the Group, (iii) overseeing the audit process and performing other duties and responsibilities as assigned by the Board from time to time, (iv) developing, reviewing and monitoring the policies and practices on corporate governance, compliance with legal and regulatory requirements and the Listing Rules, in particular, the corporate governance functions set out in the code provision D.3.1 of the CG Code, (v) reviewing the financial information of the Group and ensuring compliance with accounting standards and reviewing significant adjustments resulting from audit, and (vi) developing, reviewing and monitoring the code of conduct applicable to the employees of the Group and the Directors.

For the year ended 31 December 2019, the Audit and Compliance Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to risk management and internal control systems and financial reporting function with the management of the Company. The Audit and Compliance Committee considers that the annual financial results for the year ended 31 December 2019 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

The Audit and Compliance Committee held three meetings during the year ended 31 December 2019 to, inter alia, (i) review the Group's interim and annual financial results and reports, financial reporting and compliance procedures and consider the report from the internal auditor on the Group's internal control, (ii) review the Company's corporate governance policies and practices (including but not limited to training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, compliance with the Model Code by the Directors, and the Company's compliance with the CG Code), (iii) review the risk management and internal control systems of the Group, (iv) review the effectiveness of the internal audit function of the Group, (v) consider the re-appointment of the external auditors, and (vi) deal with other matters related to the foregoing.

The attendance records of the Audit and Compliance Committee meetings held during the year ended 31 December 2019 are set out below:

Committee members	Meeting attended/Total
Mr. HOW Sze Ming *(Chairman of the Audit and Compliance Committee) (resigned with effect from 30 April 2020)*	3/3
Mr. ZHANG Qiang *(ceased to be a member of the Audit and Compliance Committee with effect from 7 May 2020)*	3/3
Mr. WAN Joseph Jason *(resigned with effect from 30 April 2020)*	3/3

The Group's unaudited annual results for the year ended 31 December 2019 and this Corporate Governance Report have been reviewed and agreed by the then members of the Audit and Compliance Committee in a meeting held on 27 March 2020.

3. Nomination Committee

We have established the Nomination Committee with written terms of reference in compliance with the code provisions under A.5 of the CG Code. During the year ended 31 December 2019, the Nomination Committee comprised three members. During the period from 1 January 2019 to 7 November 2019, two of the members of the Nomination Committee were Independent Non-executive Directors and one was the then Executive Director. During the period from 8 November 2019 to 31 December 2019, all the members of the Nomination Committee were Independent Non-executive Directors:

Mr. HOW Sze Ming *(Chairman of the Nomination Committee) (appointed with effect from 8 November 2019 and resigned with effect from 30 April 2020)*
Mr. ZHAO Cong Richard *(resigned with effect from 30 April 2020)*
Mr. WAN Joseph Jason *(resigned with effect from 30 April 2020)*
Mr. WANG Dongfeng *(Chairman of the Nomination Committee) (resigned with effect from 30 September 2019)*
Ms. LI Luyi *(Chairman of the Nomination Committee) (appointed with effect from 30 September 2019 and resigned with effect from 7 November 2019)*

The primary roles and functions of the Nomination Committee include, but not limited to (i) reviewing the composition of the Board; (ii) identifying, selecting and recommending to the Board appropriate candidates to serve as Directors and chief executive officer of the Company, (iii) recommending succession planning for the Directors, (iv) overseeing the process for evaluating the performance of the Board and the Directors, (v) developing, recommending to the Board and monitoring nomination policy for the Group, and (vi) assessing the independence of the Independent Non-executive Directors.

The Nomination Committee held three meetings during the year ended 31 December 2019 to, inter alia, (i) review the structure, size and composition of the Board and identify suitable candidates to become members of the Board, (ii) review and assess procedures for the nomination of Directors and composition of the Board with reference to the nomination policy and the board diversity policy of the Company respectively, the summaries of which are set out in the following paragraphs headed "Nomination Policy" and "Summary of the Board Diversity Policy" in this section, (iii) assess the independence of the Independent Non-executive Directors, (iv) consider the appointment of new Directors, and (v) discuss other matters related to the foregoing.

The attendance records of the Nomination Committee meetings held during the year ended 31 December 2019 are set out below:

Committee members	Meeting attended/Total
Mr. HOW Sze Ming *(Chairman of the Nomination Committee) (appointed with effect from 8 November 2019 and resigned with effect from 30 April 2020)*	1/1
Mr. ZHAO Cong Richard *(resigned with effect from 30 April 2020)*	3/3
Mr. WAN Joseph Jason *(resigned with effect from 30 April 2020)*	3/3
Mr. WANG Dongfeng *(Chairman of the Nomination Committee) (resigned with effect from 30 September 2019)*	2/2
Ms. LI Luyi *(Chairman of the Nomination Committee) (appointed with effect from 30 September 2019 and resigned with effect from 7 November 2019)*	0/0

The composition and diversity of the Board were considered by taking into account the necessary balance of skills and experience to provide effective leadership for the development of the Group's business. The chairman of the Board and the Executive Directors possess extensive experience in the fields of IT, game business, fintech and virtual reality industry. The Executive Directors, the Non-executive Director and the Independent Non-executive Directors possess professional knowledge in management, investment, finance and regulatory areas respectively with broad and extensive experience in business advisory services and management.

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

Summary of the Board Diversity Policy

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

The Nomination Policy

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

1. *Objective*

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

2. *Selection Criteria*

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

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

3. *Nomination Process*

   3.1. Nomination by the Nomination Committee

   3.1.1 The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board periodically and make recommendation on any proposed changes to the Board;

   3.1.2 When it is necessary to fill a causal vacancy or appoint an additional director, the Nomination Committee identifies or selects candidates as recommended to the Committee, with or without assistance from external agencies or the Company, pursuant to the criteria set out in section 2 above;

   3.1.3 If the process yields two or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable);

3.1.4 The Nomination Committee makes recommendation to the Board including the terms and conditions of the appointment;

3.1.5 The Board deliberates and decides on the appointment of directors based upon the recommendation of the Nomination Committee; and

3.1.6 In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, a circular will be sent to shareholders. The names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information of the proposed candidates as required pursuant to the Listing Rules and other applicable laws, rules and regulations will be included in the circular.

3.2. Re-election of Director at Annual General Meeting

3.2.1 In accordance with the Articles, every director shall be subject to retirement by rotation at least once every three years and shall be eligible for re-election at each annual general meeting;

3.2.2 The Nomination Committee shall review the overall contribution and service to the Company of the retiring director. The Nomination Committee shall also review the expertise and professional qualifications of the retiring director, who offered himself/herself for re-election at the annual general meeting, to determine whether such director continues to meet the criteria as set out in section 2 above; and

3.2.3 Based on the review made by Nomination Committee, the Board shall make recommendations to shareholders on candidates standing for re-election at the annual general meeting of the Company, and provide the available biographical information of the retiring director in accordance with the Listing Rules to enable shareholders to make the informed decision on the re-election of such candidates at annual general meeting of the Company.

3.3. Nomination by Shareholders

The shareholders of the Company may propose a person for election as a director in accordance with the Articles and applicable law, details of which are set out in the "Procedures for Shareholders to Propose a Person for Election as a Director" of the Company (please refer to the website of the Company).

4. Independent Investigation Committee

The Company has established an independent investigation committee (the "**Independent Investigation Committee**") pursuant to a resolution of the Board on 20 December 2019, initially comprising Mr. Zhang Qiang, a Non-executive Director, and Mr. How Sze Ming, Mr. Zhao Cong Richard and Mr. Wan Joseph Jason, all the Former Independent Non-executive Directors. Mr. How Sze Ming was appointed as the chairman of the Independent Investigation Committee. On 27 April 2020, Mr. Wang Dong and Mr. Wong Chi Kin were appointed as Independent Non-executive Directors and members of the Independent Investigation Committee. On 29 April 2020, each of Mr. How, Mr. Zhao and Mr. Wan resigned as Independent Non-executive Directors and ceased to be members of the Independent Investigation Committee, Mr. How ceased to be the chairman of the Investigation Committee with effect from 30 April 2020. The Independent Investigation Committee was established for the purpose of, among other things, investigating and reporting on various matters and events leading to and/or otherwise relating to the overdue corporate loans of the internet micro-credit business of the Company under "Yunke", and recommending actions to be taken by the Board.

D. Model Code for Securities Transactions

The Company has adopted the code of conduct and procedures governing Directors' securities transactions in stringent compliance with the Model Code. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2019.

E. Directors' Responsibilities for Financial Reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Group and the Company for the year ended 31 December 2019.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules and other regulatory requirements.

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

F. External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the Financial Statements is set out in the "Independent Auditor's Report" from pages 93 to 94 of this annual report.

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

For the year ended 31 December 2019, the fees paid/payable to the former external auditor PricewaterhouseCoopers, of the Company and succeeded auditor ZHONGHUI ANDA CPA Limited, for the audit service were RMB4.4 million and RMB3.8 million respectively.

Fees paid/payable to the former external auditor, PricewaterhouseCoopers, of the Company and succeeded auditor ZHONGHUI ANDA CPA Limited, for non-audit services provided to the Group for the year ended 31 December 2019 were RMB0.2 million and nil. Such non-audit services mainly included professional service on tax issues of the Group.

G. Risk Management and Internal Control

The Board is responsible for the risk management and internal control systems of the Group and reviewing their effectiveness.

The Group's risk management and internal control systems include a well-established organisational structure with clearly defined lines of responsibility and authority. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The day-to-day departmental operations are entrusted to the individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Board from time to time. Each department is also required to keep the senior management informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis.

The Group has systems and procedures in place to identify, control and report on major types of risks the Group encounters. Each department is responsible for the assessment of individual type of risks arising under their areas of responsibilities. Relevant risks identified are reported to the Board for overseeing and monitoring of the respective types of risks. The Group's risk management and internal control systems are monitored and reviewed regularly (at least three times a year) by the Board which covers the full financial year.

During the year ended 31 December 2019, the Board has reviewed of the effectiveness of the risk management and internal control systems of the Group. The review has covered the financial, operational and compliance and risk management aspects of the Group's risk management and internal control systems implemented during the year ended 31 December 2019. The review included discussions with the management of the Company, its external and internal auditors. During the year ended 31 December 2019, certain deficiencies in the internal control system were identified in the Company's licensed internet micro-credit business under Yunke and VR game business under Beijing Xigua. The Board has established an independent investigation committee initially comprising Mr. Zhang Qiang, a Non-executive Director, and Mr. How Sze Ming, Mr. Zhao Cong Richard and Mr. Wan Joseph Jason, being the Former Independent Non-executive Director. On 27 April 2020, Mr. WANG Dong and Mr. WONG Chi Kin were appointed as Independent Non-executive Directors and members of the Independent Investigation Committee. On 29 April 2020, each of Mr. How, Mr. Zhao and Mr. Wan resigned as Independent Non-executive Directors and ceased to be member of the Independent Investigation Committee with effect from 30 April 2020. The Company has also appointed one of the big four international accounting firm to conduct an independent investigation on the outstanding corporate loans especially the Affected Loans (as defined in the announcement of the Company dated 11 December 2019) and VR game business (results of the independent investigation are set out in the announcements of the Company dated 7 May 2020 and 8 May 2020). The Company takes the issues as identified by the independent investigation seriously, and is considering to engaged an internal control consultant to conduct a complete review on certain scopes of the internal control system in respect of its internet micro-credit business and VR game business in order to carry out internal control system rectification. The Board is satisfied with the appropriate measures taken to rectify the deficiencies and will continue to monitor and review the effectiveness of the risk management and internal control systems of the Group. In addition, the Board has also reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting functions.

H. Framework for Disclosure of Inside Information

The Group has put in place a robust framework for the disclosure of inside information in compliance with the SFO. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the stakeholders to apprehend the latest position of the Group. Under the procedures, any Directors or employees of the Company (especially the senior management and unit heads, etc.) who is aware of any potential inside information shall initiate the reporting procedures as soon as practicable. The Board is responsible to assess and determine the nature of such information and to make relevant disclosure in accordance with the SFO and the Listing Rules. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

I. Internal Audit

The Group has in place an internal audit function. The primary role of the internal audit function is to help the Board and the senior management of the Group to protect the assets, reputation and sustainability of the Group. The internal audit function provides independent and objective review on the design and operational effectiveness of the Group's framework of internal control and risk management systems, as well as the Group's governance practices. The internal audit function of the Group is independent of the internal control systems of the Group. The internal audit function also reviews the Company's management's action plans in relation to audit findings and verifies the adequacy and effectiveness of the mitigating controls before formally closing the issues.

The internal audit function of the Group reports results and findings in its audit work together with assessment of the overall risk management and internal control framework to the Audit and Compliance Committee as appropriate.

J. Communications with Shareholders and Investors

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

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

At the annual general meeting of the Company held on 28 May 2019 and the extraordinary general meeting of the Company held on 29 July 2019, separate resolution was proposed by the chairman of the respective general meeting in respect of each separate issue which was itemised on the notice convening such general meeting, including but not limited to the re-election of retiring Directors. Procedures for conducting a poll were explained by the chairman at each general meeting of the Company. The chairman of the Board and the chairman of each of the Board committees were present to answer questions from the Shareholders. Representatives from external auditors of the Company also attended the annual general meeting of the Company held on 28 May 2019. All resolutions were voted by way of poll. The Company appointed its Hong Kong branch share registrar to act as scrutineers of each of the general meetings held during the year ended 31 December 2019 and to ensure votes cast at such meetings were properly counted and recorded, and the Company had announced the respective poll results on the websites of the Stock Exchange and the Company in accordance with the Articles and the Listing Rules. Save as disclosed above, no other general meeting of the Company was held during the year ended 31 December 2019.

To promote effective communication, the Company maintains a website at www.forgame.com, where information and updates on the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access.

The Company has established a shareholders' communication policy since 3 October 2013 and will review it on a regular basis to ensure its effectiveness.

The policy on payment of dividends

The Company's policy on payment of dividends (the "**Dividend Policy**") was adopted by the Company pursuant to the resolutions of the Board. The Company will review the Dividend Policy, as appropriate, to ensure the effectiveness of the Dividend Policy. The Dividend Policy is set out as below:

Subject to the Cayman Islands Company Law and the Articles, the Company may declare dividends in any currency through a general meeting, but no dividend may be declared in excess of the amount recommended by the Board. The Articles provide that dividends may be declared and paid out of the profit, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Islands Company Law.

Except as provided under the terms of a particular issue, or with respect to the rights attached to any Shares, (i) all dividends will be declared and paid according to the amounts paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a Share in advance of calls may for this purpose be treated as paid up on the Share; and (ii) all dividends will be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any of the Shareholders or in respect of any Shares all sums of money (if any) presently payable by such Shareholder to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of the Board, and the amounts of dividends actually declared and paid will also depend on:

- our general business conditions;
- our financial results;
- our capital requirements;
- interests of the Shareholders; and
- any other factors which the Board may deem relevant.

The future dividend payments to the Shareholders will also depend upon the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles. PRC laws also require PRC enterprises to set aside part of their net profit as statutory reserves before they distribute the net proceeds. These statutory reserves are not available for distribution as cash dividends.

The Board has the absolute discretion in whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare.

The Company will continue to re-evaluate the Dividend Policy in light of the financial condition and the prevailing economic climate. However, the determination to pay dividends will be made at the discretion of the Board and will be based upon the Company's earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that the Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that the Company may enter into in the future. There can be no assurance that dividends of any amount will be declared or distributed in any year.

K. Shareholder Rights

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

Shareholders should direct their enquiries about their shareholdings to the Company's Hong Kong branch share registrar, namely, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Shareholders who wish to put enquiries to the Board can send their enquiries to the company secretary of the Company who will ensure these enquiries to be properly directed to the Board. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Corporate communication of the Company will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

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

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

During the year ended 31 December 2019, there was no change in the constitutional documents of the Company. The latest version of the Company's Articles is available on the websites of the Company and the Stock Exchange.

L. Company Secretary

The Company engages an external service provider to provide secretarial services and has appointed Ms. LEE Ka Man ("**Ms. Lee**") as the company secretary of the Company on 20 April 2018.

Her main contact person at the Company is Mr. Solomon Chow (Senior Legal Counsel). All Directors have access to the advice and services of the company secretary of the Company to ensure the Board procedures, and all applicable law, rules and regulations, are followed.

Ms. Lee is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom. She has over 15 years of experience in the fields of company secretarial and compliance.

For the financial year ended 31 December 2019, Ms. Lee had confirmed that she had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management of the Company as at 31 December 2019 and up to the Latest Practicable Date were:

DIRECTORS

Executive Directors

Mr. HAN Jun *(Chief Executive Officer) (appointed with effect from 11 November 2019)*
Mr. ZHANG Yang *(Co-Chief Operations Officer) (retired with effect from 28 May 2019)*
Mr. WANG Dongfeng *(Chairman and Chief Executive Officer) (resigned with effect from 30 September 2019)*
Ms. LI Luyi *(Chairman and Chief Executive Officer)*
(appointed with effect from 14 April 2019 and resigned with effect from 7 November 2019)

Non-executive Directors

Mr. ZHANG Qiang *(Chairman)*
Ms. LIANG Na *(re-designated as Non-executive Director with effect from 1 July 2020)*

Independent Non-executive Directors

Mr. WANG Dong (appointed with effect from 27 April 2020)
Mr. WONG Chi Kin (appointed with effect from 27 April 2020)
Mr. CUI Yuzhi (appointed with effect from 7 May 2020)
Mr. HOW Sze Ming (resigned with effect from 30 April 2020)
Mr. ZHAO Cong Richard (resigned with effect from 30 April 2020)
Mr. WAN Joseph Jason (resigned on with effect from April 2020)

Mr. HAN Jun was appointed as an Executive Director, chairman of the Board, chief executive officer of the Company and the Authorised Representative in place of Ms. LI Luyi with effect from 11 November 2019. On 27 April 2020, Mr. Han resigned as chairman of the Board and the Authorised Representative but remains as an Executive Director. On 7 May 2020, Mr. Han was appointed as a member of the Remuneration Committee.

Mr. LIANG Na was re-designated from the sole chief financial officer of the Company to one of the joint chief financial officer of the Company with effect from 7 May 2020. Ms. LIANG Na has resigned from the position of the joint chief financial officer of the Company which took effect on 30 June 2020. With effect from 1 July 2020, Ms. LIANG Na has been re-designated from Executive Director to Non-executive Director.

Mr. ZHANG Yang was re-designated from the chief operations officer of the Group to co-chief operations officer of the Group on 14 April 2019. In accordance with article 104 of the Articles, Mr. ZHANG Yang retired from office as an Executive Director by rotation at the annual general meeting of the Company held on 28 May 2019 and did not offer himself for re-election as Director at such annual general meeting in order to devote more time to focus on the management of JLC (Cayman). He also resigned as the co-chief operations officer of the Group on 28 May 2019.

Mr. WANG Dongfeng resigned as Executive Director, the chairman of the Board, the chief executive officer of the Company, the chairman of the Nomination Committee and the Authorised Representative on 30 September 2019.

Ms. LI Luyi was appointed as an Executive Director on 14 April 2019. She had also acted as the co-chief operations officer of the Group since the completion of her application for the change of employment of her working visa from the Immigration Department of the Government of Hong Kong. She was re-elected as an Executive Director at the annual general meeting of the Company held on 28 May 2019 and was re-designated from the co-chief operations officer to the chief operations officer of the Group on 28 May 2019. Ms. LI Luyi was appointed as the chairman of the Board, the chairman of the Nomination Committee, and the Authorised Representative and was re-designated from the chief operations officer of the Group to chief executive officer on 30 September 2019. She resigned as Executive Director, the chairman of the Board, the chief executive officer, the chairman of the Nomination Committee and the Authorised Representative on 7 November 2019.

Mr. ZHANG Qiang was appointed as chairman of the Board and the Authorised Representative in place of Mr. HAN Jun with effect from 27 April 2020. On 7 May 2020, Mr. Zhang ceased to be a member of each of the Audit and Compliance Committee and Remuneration Committee, and was appointed as chairman of the Nomination Committee.

Mr. HOW Sze Ming was appointed as the chairman of the Nomination Committee on 8 November 2019.

Each of Mr. HOW Sze Ming, Mr. ZHAO Cong Richard and Mr. WAN Joseph Jason resigned as an Independent Non-executive Director with effect from 30 April 2020. Upon their respective resignation, Mr. HOW Sze Ming ceased to be chairman of the Audit and Compliance Committee, chairman of the Nomination Committee and a member of the Remuneration Committee; Mr. ZHAO Cong Richard ceased to be chairman of the Remuneration Committee and a member of the Nomination Committee; and Mr. WAN Joseph Jason ceased to be a member of each of the Audit and Compliance Committee and the Nomination Committee.

Mr. WANG Dong was appointed as an Independent Non-executive Director with effect from 27 April 2020. On 7 May 2020, Mr. Wang Dong was further appointed as a member of each of the Audit and Compliance Committee and the Nomination Committee, and chairman of the Remuneration Committee, and subsequently appointed as a member of the Corporate Governance Committee on 22 May 2020.

Mr. WONG Chi Kin was appointed as an Independent Non-executive Director with effect from 27 April 2020. On 7 May 2020, Mr. WONG Chi Kin was further appointed as chairman of the Audit and Compliance Committee and a member of the Remuneration Committee, and subsequently appointed as a member of the Corporate Governance Committee on 22 May 2020.

Mr. CUI Yuzhi was appointed as an Independent Non-executive Director and a member of each of the Audit and Compliance Committee and the Nomination Committee with effect from 7 May 2020. On 22 May 2020, Mr. CUI Yuzhi was further appointed as chairman of the Corporate Governance Committee.

Pursuant to article 99(3) of the Articles, any Director so appointed to fill a casual vacancy by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. Any Director so appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. WANG Dong and Mr. WONG Chi Kin shall hold office until the forthcoming Annual General Meeting and being eligible, offer themselves for re-election as Directors at the Annual General Meeting.

Pursuant to article 104(1) of the Articles, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Accordingly, Mr. ZHANG Qiang and Ms. LIANG Na shall retire from office by rotation at the forthcoming Annual General Meeting . Ms. LIANG Na has indicated that she will not offer herself for re-election as Director and will retire after the conclusion of the Annual General Meeting. Mr. ZHANG Qiang, being eligible, has offered himself for re-election as Director at the Annual General Meeting.

DIRECTORS AND SENIOR MANAGEMENT

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

Each of the Directors did not have any relationships with any of the other Directors, senior management or substantial or controlling Shareholders of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS

HAN Jun, aged 48, was appointed as the chairman of the Board, an Executive Director, the chief executive officer of the Company and the Authorised Representative on 11 November 2019. Mr. HAN resigned as the chairman of the Board and the Authorised Representative on 27 April 2020 but remains as an Executive Director and the chief executive officer of the Company.

Mr. Han has over 18 years of experience in the internet industry. Before 2000, Mr. Han worked in China Potevio Co., Ltd, responsible for the development of software for operation service of telecommunication main network. He acted as the vice-president of TOM.COM LIMITED from January 2000 to June 2004, where he was mainly responsible for the website content of Tom.com and establishment of mobile value-added services channel and financial performance target. He acted as the general manager of 北京閃聯互動網路科技有限責任公司 (Beijing Shanlian Hudong Network Technology Co., Ltd.*) from August 2004 to March 2018, where he was mainly responsible for daily operation of the business. He also held various positions in Prosten Technology Holdings Limited (now known as China Brilliant Global Limited, stock code: 8026.HK, a company principally engaged in the provision of solution integration services and wireless mobile value-added services), including non-executive director from December 2013 to February 2015 and executive director from February 2015 to February 2018. He also acted for the chief operations officer of KongZhong Corporation (a company listed on NASDAQ in the United States in July 2004 and subsequently privatised in April 2017) from September 2017 to October 2019, where he was responsible for the daily operation of the business, data analysis and co-ordination and execution of the financial indicator and business target.

Mr. Han graduated from the College of Computer Science of Beijing University of Technology, majoring in computer software. Save as disclosed above, Mr. Han has not held any directorship in any other listed companies in the past three years.

Mr. Han has been appointed a member of the Remuneration Committee since 7 May 2020.

LIANG Na, aged 39, was appointed as an Executive Director on 24 May 2016. Ms. Liang was appointed as the chief financial officer of the Group with effect from 1 November 2014 and re-designated from sole chief financial officer to a joint chief financial officer of the Company on 7 May 2020. Ms. Liang has resigned from the position of joint chief financial officer of the Company which took effect on 30 June 2020. With effect from 1 July 2020, Ms. Liang has been re-designated from Executive Director to Non-executive Director. She has held various key roles within the Group (including vice president and director of finance of the Group) and has over 16 years of financial management experience in both traditional and technology sectors. Prior to joining the Group in June 2011 as director of finance, she was employed by Digital China Holdings Limited, a company whose shares are listed on the Main Board (Stock Code: 00861) from January 2005 to June 2011 and took up the role of director of finance within the supply chain business unit.

Ms. Liang graduated from Xi'an University of Technology with a bachelor degree in accounting in July 2002, followed by the degree of executive master of business administration at South China University of Technology. Ms. Liang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

ZHANG Qiang, aged 44, was appointed as a Non-executive Director on 24 May 2016. Mr. Zhang was appointed as the chairman of the Board and the Company's authorised representative on 27 April 2020. Mr. Zhang is currently a vice president and the Deputy CFO of TPV Technology Limited, a company whose shares are listed on the Main Board (Stock Code: 00903).

Mr. Zhang was a vice president of Unisplendour Technology (Holdings) Limited, a company whose shares are listed on the Main Board (Stock Code: 00365). He was a vice president (Corporate Finance) of TPV Technology Limited and was responsible for corporate finance activities, investors relations and public relations. Mr. Zhang was the managing director of China Great Wall Computer (Hong Kong) Holding Limited from March 2004 to January 2015, a vice president of investment and overseas business of China Great Wall Computer Shenzhen Company Limited (a company whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000066.sz)) from July 2007 to January 2015, the chairman secretary of Great Wall Technology Company Limited from April 2002 to February 2004, the CEO assistant and company secretary of HiChina Web Solution Company Limited from June 2001 to January 2002 and a project manager of importation of Poly Technology Inc. Ltd. from July 1998 to May 2001.

Mr. Zhang graduated from the University of International Business and Economics with a bachelor degree in economics, followed by a master degree in business administration at China Europe International Business School. Save as disclosed above, Mr. Zhang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. Zhang has been a member of the Audit and Compliance Committee and the Remuneration Committee since 24 May 2016. With effect from 7 May 2020, Mr. Zhang ceased to be a member of each of the Audit and Compliance Committee and Remuneration Committee, and has been appointed as chairman of the Nomination Committee.

WANG Dong, aged 42, was appointed as an Independent Non-executive Director on 27 April 2020. Mr. Wang Dong is currently the member of executive committee of Soochow Securities (International) Financial Holdings Ltd, has extensive banking and securities business experience and has worked in various financial institutions in Mainland China and Hong Kong. During his time in Hong Kong, Mr. Wang Dong worked in BOCOM International Holdings Limited from 2011 to 2019 with his last position as deputy general manager of BOCOM International Securities Limited; and acted as the non-executive director of China Kingstone Mining Holdings Limited (stock code: 1380) in 2013.

Mr. Wang Dong obtained a bachelor degree in economics and a bachelor degree in laws from Zhongnan University of Economics and Law, a master's degree in economics from Zhongnan University of Economics and Law and an executive master of business administration degree from China Europe International Business School.

With effect from 7 May 2020, Mr. Wang Dong has been appointed as a member of the Audit and Compliance Committee and the Nomination Committee, and chairman of the Remuneration Committee. With effect from 22 May 2020, Mr. Wang Dong has been further appointed as a member of the Corporate Governance Committee.

WONG Chi Kin, aged 47, was appointed as an Independent Non-executive Director on 27 April 2020. Mr. Wong has over 24 years of banking and finance experience in international investment banks and commercial banks as well as various listed companies in Hong Kong. Since March 2017, Mr. Wong has been a non-executive director of Asiaray Media Group Limited, whose shares are listed on Main Board of the Stock Exchange (stock code: 1993). Besides, Mr. Wong was appointed as an independent non-executive director of Tsui Wah Holdings Limited ("**Tsui Wah**"), whose shares are listed on Main Board of the Stock Exchange (stock code: 1314), on 5 November 2012 and was re-designated as a non-executive director of Tsui Wah on 1 November 2016.

From July 2018 to July 2019, Mr. Wong was an independent non-executive director of Shenzhou Space Park Group Limited (in liquidation) ("**Shenzhou Space**"), mainly responsible for providing independent advice to Shenzhou Space on listing resumption. The shares of Shenzhou Space were listed on Main Board of the Stock Exchange (stock code 692) and delisted in December 2019. Moreover, in January 2020, a winding-up order was made by the High Court of Hong Kong against Shenzhou Space. Mr. Wong was also the chief financial officer of various listed companies in Hong Kong. From October 2014 to October 2018, Mr. Wong was the chief financial officer of Orient Victory Travel Group Company Limited, whose shares are listed on Main Board of the Stock Exchange (stock code: 265). From September 2011 to October 2014, Mr. Wong was the chief financial officer of China Qinfa Group Limited, whose shares are listed on Main Board of the Stock Exchange (stock code: 866).

Mr. Wong obtained a Bachelor of Science (Honours) degree in finance from City University of Hong Kong in 1996, a master's degree in practicing accounting from Monash University, Australia in 2001, an executive master of business administration degree from The Chinese University of Hong Kong in 2010. Mr. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of CPA Australia and an associate member of The Hong Kong Institute of Directors.

With effect from 7 May 2020, Mr. Wong has been appointed as chairman of the Audit and Compliance Committee and a member of the Remuneration Committee. With effect from 22 May 2020, Mr. Wong has been further appointed as a member of the Corporate Governance Committee.

CUI Yuzhi, aged 54, was appointed as an Independent Non-executive Director on 7 May 2020. Mr. Cui is a seasoned independent investment advisor. Mr. Cui holds a Bachelor of Science degree in Applied Physics from the University of Notre Dame (graduated with highest honor), and MBA from the University of Chicago Booth School of Business. Mr. Cui has more than 20 years' experience in finance with deep expertise in international capital market and enterprise operations. Mr. Cui held senior positions at various organizations, including the Executive President of Tendcare Medical Group, the Portfolio Manager at Atlantis Investment Hong Kong, the General Manager of investment and operations at Renhe Commercial (stock code: 1387.hk), the CFO of Zhong An Real Estate (stock code: 672.hk), the CFO of Excellence Group, the CFO of Treasury Holdings China Limited and the Vice President of Shanghai Forte Group. Since 2016, Mr. Cui has served as Independent Non-executive Director, Chairman of Audit Committee and member of Nomination Committee of Sino ICT Holdings Limited.

With effect from 7 May 2020, Mr. Cui has been appointed as a member of the Audit and Compliance Committee and the Nomination Committee. Mr. Cui has been further appointed as the chairman of the Corporate Governance Committee with effect from 22 May 2020.

HOW Sze Ming, aged 43, was appointed as an Independent Non-executive Director on 1 January 2016 and resigned on 29 April 2020 which took effect on 30 April 2020.

Mr. How has over 19 years of experience in investment banking and business assurance industries. From September 1999 to July 2002, Mr. How worked as a senior associate in the Assurance and Business Advisory Department of PricewaterhouseCoopers and was primarily responsible for assurance and business advisory work. From July 2002 to June 2003, he worked as a corporate finance executive of Tai Fook Securities Company Limited (now known as Haitong International Securities Company Limited), a company which was principally engaged in securities broking, securities dealing and leveraged foreign exchange trading, where he was responsible for corporate finance advisory work. From July 2003 to December 2004, Mr. How worked as an assistant manager at Tai Fook Capital Limited (now known as Haitong International Capital Limited), a company principally engaged in corporate finance advisory services, where he was responsible for corporate finance advisory work. From December 2004 to May 2006, he worked as an assistant vice president of CCB International Capital Limited, a company principally engaged in securities advisory, securities dealing and corporate finance advisory, where he was responsible for corporate finance advisory work. From June 2006 to March 2009, Mr. How worked as an assistant vice president in the Investment Banking Division of ICEA Capital Limited, a company principally engaged in dealing in securities and corporate finance advisory services, where he was responsible for corporate finance advisory work. From April 2009 to February 2010, he worked as an assistant vice president in the Investment Banking Division of ICBC International Holding Limited, a company principally engaged in investment banking, where he was responsible for corporate finance advisory work. From February 2010 to June 2015, Mr. How was a managing director of the Investment Banking Department of CMB International Capital Corporation Limited, a company principally engaged in investment banking, securities brokerage and asset management, where he was responsible for corporate finance advisory work. From July 2015 to January 2016, Mr. How was a managing director of Zhaobangji International Capital Limited, a company principally engaged in investment banking and advisory services, where he is responsible for corporate finance advisory work.

Mr. How joined Southwest Securities (HK) Capital Limited, a company principally engaged in corporate finance and advisory services, in February 2016 and is currently a managing director and head of corporate finance where he is responsible for corporate finance advisory work. Southwest Securities is an indirect wholly-owned subsidiary of Southwest Securities International Securities Limited, a company whose shares are listed on the Main Board (Stock Code: 00812). Mr. How was an independent non-executive director of (i) QPL International Holdings Limited, a company whose shares are listed on the Main Board (Stock Code: 00243) from September 2013 to September 2016 and (ii) Million Stars Holdings Limited (previously named as Odella Leather Holdings Limited), a company whose shares are listed on the GEM of the Stock Exchange (Stock Code: 08093) from January 2015 to March 2017. Mr. How has been an independent non-executive director of (i) World-Link Logistics (Asia) Holding Limited, a company whose shares were previously listed on the GEM of the Stock Exchange and are now on the Main Board (Stock Code: 06083), since December 2015; (ii) Shanghai Zendai Property Limited, a company whose shares are listed on the Main Board (Stock Code: 00755), since May 2017; (iii) 1957 & Co. (Hospitality) Limited, a company whose shares are listed on the GEM of the Stock Exchange (Stock Code: 08495), since November 2017; (iv) Watts International Maritime Engineering Limited, a company whose shares are listed on the Main Board (Stock Code: 02258), since October 2018 and (v) Ruicheng (China) Media Group Limited, a company whose shares are listed on the Main Board (Stock Code: 01640), since October 2019.

Mr. How graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree (first class honours, majoring in professional accountancy) in December 1999. By profession, he is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Save as disclosed above, Mr. How is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. How was the chairman of the Audit and Compliance Committee and a member of the Remuneration Committee since 1 January 2016. He was also appointed as the chairman of the Nomination Committee on 8 November 2019. Following his resignation as an Independent Non-executive Director with effect from 30 April 2020, Mr. How ceased to be the chairman of the Audit and Compliance Committee, chairman of the Nomination Committee and member of the Remuneration Committee.

ZHAO Cong Richard, aged 69, was appointed as an Independent Non-executive Director on 1 September 2013 and resigned on 29 April 2020 which took effect on 30 April 2020..

Mr. Zhao has been serving as the chairman of SingMeng Telemedia Group Ltd. since January 2016. Mr. Zhao has over 30 years of experience in managing and investing in businesses based in Hong Kong and China. From March 2002 to December 2015, he served as the managing director of Yangtze Ventures Management Limited. From March 2000 to February 2001, he served as a vice president of the venture capital arm of PCCW Limited, a company whose shares are listed on the Main Board (Stock Code: 00008), stationed in Beijing, PRC, where he assisted in completing a number of key investments. From October 1995 to March 2000, Mr. Zhao served as the chief adviser to the president and chief executive officer of China Investment Group Ltd., where he was responsible for providing analysis on political and economic issues and investment opportunities in China. From April 1992 to January 1995, he served as the general manager of the China Division of China Strategic Holdings Limited, a company whose shares are listed on the Main Board (Stock Code: 00235), where he assisted in the completion of numerous joint ventures in China. Prior to that, Mr. Zhao also served as a deputy general manager and a director at Power View Development Ltd. between 1988 to 1991, a trading manager and a director at Reliance Agency Ltd. between 1986 to 1988, and a trading manager and a director at High & Mighty Co. Ltd. between July 1983 to July 1986.

Mr. Zhao currently serves as a director in three management service companies, namely Viscon Limited since July 1994, the Yangtze Ventures Management (HK) Limited since March 2002 and Yangtze Capital Advisory Limited since June 2007, and an investment holding company, namely Ecoplast Technologies Inc since November 2009. Mr. Zhao also served as a non-executive director of CIG Yangtze Ports PLC, a company whose shares are listed on the GEM of the Stock Exchange (Stock Code: 08233) from November 2003 to January 2007. In addition, he was admitted as a fellow by the Hong Kong Institute of Directors in July 2006. Save as disclosed above, Mr. Zhao is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. Zhao was the chairman of the Remuneration Committee and a member of the Nomination Committee. Following his resignation as an Independent Non-executive Director with effect from 30 April 2020, Mr. Zhao ceased to be the chairman of the Remuneration Committee and a member of the Nomination Committee.

WAN Joseph Jason, aged 47, was appointed as an Independent Non-executive Director on 25 May 2018 and resigned on 29 April 2020 which took effect on 30 April 2020.

Mr. Wan holds a bachelor degree in economics from the University of Southern California. He has over 21 years of experience in investment banking, corporate finance and regulatory areas and has worked with various reputable international financial institutions and the Listing Division of the Hong Kong Exchanges and Clearing Limited. Mr. Wan is currently the deputy general manager and the head of Investment Banking Department of Dongxing Securities (Hong Kong) Financial Holdings Limited, an affiliated member of China Orient Asset Management Corporation and is a responsible officer licensed under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Wan has been an independent non-executive director of China 21st Century Education Group Limited, a company whose shares are listed on the Main Board (Stock Code: 01598) since 6 March 2019. Save as disclosed above, Mr. Wan has not held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years, nor does he hold any other position with the Company and other members of the Group or possess any other major appointments or professional qualifications.

Mr. Wan was a member of the Audit and Compliance Committee and the Nomination Committee. Following his resignation as an Independent Non-executive Director with effect from 30 April 2020, Mr. Wan ceased to be a member of each of the Audit and Compliance Committee and the Nomination Committee.

SENIOR MANAGEMENT

The Group's senior management is responsible for the day-to-day management of the business of the Group. The table below shows certain information in respect of the senior management of the Group as at 31 December 2019 and up to the Latest Practicable Date:

Name	Age	Position/Title	Date of Appointment
HAN Jun	48	Chief Executive Officer	11 November 2019
LIANG Na	39	Joint Chief Financial Officer *(resigned with effect from 30 June 2020)*	1 November 2014
ZHU Liang	52	Joint Chief Financial Officer and vice president	7 May 2020
YANG Tao	43	Chief Product Officer	15 June 2012
DIAO Guoxin	45	Vice President	7 May 2020

ZHU Liang, aged 52, was appointed as a joint chief financial officer and vice president of the Company on 7 May 2020. Mr. Zhu graduated from Zhongnan University of Economics and Law in the PRC in October 1990, where he obtained a bachelor's degree in accounting. From 1990 to 1993, Mr. Zhu served as a statistician at Wuhan Iron and Steel (Group) Corporation in the PRC. From 1994 to 2012, Mr. Zhu assumed various positions, such as accountant, financial officer, director and legal general manager at Synnex Technology International Corporation, a company principally engaged in the distribution of information, communication, consumer product, and semiconductor products, and the shares of which are listed on the Taiwan Stock Exchange Corporation (Stock code: 2347). From 2012 to 2019, Mr. Zhu was the financial controller of Shanghai Evendata Digital Technology Co., Ltd. in Shanghai, PRC. From 2019 and prior to joining the Company, Mr. Zhu served as the general counsel of Shenzhen Jiuli Supply Chain Co., Ltd.

Mr. Zhu will be mainly responsible for the Group's overall financial management, including financial accounting management, funds management, process construction, risk and internal control, budget and analysis, and personnel management for the financial team and so on.

YANG Tao, aged 43, was appointed as the chief product officer of the Group on 15 June 2012. He joined the Group in June 2010 through Feiyin where he was the game producer until November 2011. On December 2011, he became the vice president where he was in charge of overseeing the development of webgames and products of the Group. Mr. Yang is primarily responsible for the research and development of webgame products at the Group and drives the planning and selection of the genres, features and design of webgames. Mr. Yang possesses management and development experience in the webgame industry, which is underpinned by his work in pioneering the Group's "凡人修真" (translated as "Soul Guardian") flagship webgame series.

Prior to joining the Group, he was the deputy general manager of Beijing Internet Vision Technology Co. Ltd from July 2007 to August 2008 where he was responsible for managing the research and development of the company.

Mr. Yang graduated from Capital University of Economics where he was awarded a college diploma in economics information management in July 1998. Mr. Yang is not and has not been a director of any listed companies in Hong Kong or overseas in the past three years.

Mr. Diao, aged 45, has been appointed as vice president of the Company with effect from 7 May 2020. Mr. Diao graduated from the Chinese Department of Renmin University of China in 1998 with a bachelor's degree in Chinese language and literature. Mr. Diao had extensive experience in corporate management, and previously held important leadership positions in the administrative, personnel, property, and infrastructure sectors of 53 super large state- owned enterprise groups under the State-owned Assets Supervision and Administration Commission of the State Council in the PRC. From March 2002 to November 2005, he served as the head of general office and chairman of the supervisory board of Great Wall Technology Company Limited, a joint stock limited company incorporated in the PRC with limited liability and the shares of which are listed on the Stock Exchange (Stock code: 74). From November 2005 to September 2019, he served as assistant president, general manager of the property services division and director of the infrastructure office at China Greatwall Technology Group Co., Ltd. etc.

The biographies of Mr. HAN Jun and Ms. LIANG Na have been disclosed under the paragraph headed "Biographical Details of Directors" above.

INDEPENDENT AUDITOR'S REPORT

中汇
ZHONGHUI

TO THE SHAREHOLDERS OF FORGAME HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Forgame Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 95 to 171, which comprise the consolidated statement of financial position as at 31 December 2019, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

1. Limited accounting books and records of disposal subsidiaries

As disclosed in note 12 and 38(b) to the consolidated financial statements, certain subsidiaries of the Company (the "Disposal Subsidiaries") have been disposed for the year ended 31 December 2019, of which we were unable to obtain the accounting books and records in respect of the Disposal Subsidiaries for the year ended 31 December 2019 and 2018. Due to the insufficient supporting documents and relevant explanations on the accounting books and records in respect of the Disposal Subsidiaries, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the disposal of subsidiaries and the following income and expenses and other related disclosure notes in relation to the Group, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements and the completeness of opening balances and comparative figures of the Disposal Subsidiaries:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
(a) Income and expenses:		
Loss from discontinued operation	**15,815**	315,074

		As at 31 December 2018 RMB’000
(b)	***Assets and liabilities:***	
	Property and equipment	3,567
	Intangible assets	2,605
	Trade receivables	13,718
	Prepayments and other receivables	7,597
	Cash and cash equivalents	114,273
	Trade payables	(18,755)
	Other payables and accruals	(34,348)
	Income tax liabilities	(1,655)

(c) The proceeds receivable from the buyers of disposal subsidiaries (the "Proceeds Receivable")

As disclosed in note 26 to the consolidated financial statements, the Proceeds Receivable of RMB33,203,000, against which full impairment loss of RMB33,203,000 had been made for the year ended 31 December 2019.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to (i) the carrying amount of the Proceeds Receivable balance as at 31 December 2019 is fairly stated; and (ii) whether the impairment for the Proceeds Receivable of RMB33,203,000 for the year ended 31 December 2019 is properly recorded.

2. Limited accounting books and records of acquisition of Beijing Xigua

As disclosed in note 38(a) to the consolidated financial statements, the Group acquired a 69.84% equity interest in Beijing Xigua Huyu Technology Co., Ltd. ("Beijing Xigua") on 26 June 2019. Ms. Li Luyi ("Ms. Li"), the former executive director and chief executive officer of the Company, was responsible for the management and operation of Beijing Xigua prior to her loss of contact from late October to early November 2019 and her resignation on 7 November 2019. Due to the insufficient supporting documents and relevant explanations on the accounting books and records in respect of Beijing Xigua and its operations, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the acquisition of Beijing Xigua and the following income and expenses for the year ended 31 December 2019 and the assets and liabilities as at 31 December 2019, and the segment information and other related disclosure notes in relation to the Group, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements:

		RMB'000
(a)	***The fair value of the identifiable assets and liabilities of Beijing Xigua acquired as at its date of acquisition:***	
	Property and equipment	16,580
	Intangible assets	64,827
	Right-of-use assets	38,143
	Trade receivables	6,398
	Prepayments and other receivables	23,673
	Other payables and accruals	(37,299)
	Lease liabilities	(36,827)
	Contract liabilities	(1,873)
	Deferred tax liabilities	(8,887)
	Goodwill	52,644
	Derivative financial instrument	15,069

		For the year ended 31 December 2019 RMB'000
(b)	***Income and expenses:***	
	Revenue	**25,996**
	Cost of revenue	**(70,024)**
	Gross profit	**(44,028)**
	Selling and marketing expenses	**(5,029)**
	Administrative expenses	**(2,991)**
	Research and development expenses	**(7,860)**
	Other income	**271**
	Other losses	**(784)**
	Finance cost	**(824)**
	Gain on fair value change of derivative financial instrument	**65,131**
	Impairment of assets in connection with a newly acquired business	**(142,507)**
	Impairment of financial assets measured at amortised cost	**(5)**
	Loss before income tax	**(138,626)**
	Income tax credit	**8,887**
	Loss for the year	**(129,739)**

		As at 31 December 2019 RMB'000
(c)	***Assets and liabilities:***	
	Property and equipment	**835**
	Right-of-use assets	**36,950**
	Trade receivables	**1,126**
	Prepayments and other receivables	**2,802**
	Derivative financial instrument	**80,200**
	Trade payables	**(95)**
	Other payables and accruals	**(33,853)**
	Contract liabilities	**(5,295)**
	Lease liabilities	**(46,696)**

(d) Commitments and contingent liabilities in relation to Beijing Xigua and its operations

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities in relation to Beijing Xigua and its operations as at 31 December 2019.

(e) Related party transactions and disclosures in relation to Beijing Xigua and its operations

No sufficient evidence has been provided to satisfy ourselves as to the existence, accuracy and completeness of the disclosures of the related party transactions for the year ended 31 December 2019 and balances as at 31 December 2019 in relation to Beijing Xigua and its operations as required by International Accounting Standard 24 (Revised) "Related Party Disclosures".

3. Certain corporate loan receivables

Corporate loan receivables of RMB99,700,000 in aggregate were granted in 2019 to certain corporate borrowers established in the PRC, against which full impairment loss of RMB99,700,000 had been made for the year ended 31 December 2019.

We were unable to obtain sufficient appropriate audit evidence and reasonable explanation to substantiate the commercial substance and nature of the relevant transactions and the relationship between the Group and these corporate borrowers.

Any adjustments to the figures as described from points 1 to 3 above might have a consequential effect on the Group's result and cashflows for the years ended 31 December 2019 and 2018, and the financial positions of the Group as at 31 December 2019 and 2018, and the related disclosures thereof in the consolidated financial statements.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Revenue

Refer to Note 7 to the consolidated financial statements.

The Group is engaged in providing game product development services through game platforms, which are either self-owned or operated by third parties. Revenue derives from sales of in-game virtual items, in-game virtual items are categorised as both durable items and consumable items. Revenue derived from consumable items in its game business are recognised once they are consumed. Revenue derived from durable virtual items in game business are recognised ratably over the player relationship period ("Player Relationship Period").

During the year ended 31 December 2019, the Group's revenue from the transaction described above amounted to RMB57,582,000. The amount of associated contract liabilities amounted to RMB3,980,000 as at 31 December 2019.

The Group determines the Player Relationship Period on a game-by-game basis taking into account all known and relevant information at the time of assessment. We focused on this area due to the fact that management applied significant judgements and estimation in determining the Player Relationship Period of each game. These judgements and estimation included: (i) the determination of key assumptions applied in the Player Relationship Period, including but not limited to the games profile, target audience and players of different demographic groups; (ii) the identification of events that may trigger changes in the Player Relationship Period; and (iii) the estimation of Player Relationship Period of newly launched games by considering the performance of similar types of games.

Our audit procedures included, among others:

— Understanding and evaluating the design effectiveness of key internal controls in relation to the recognition of revenue from in-game virtual items, including oversight exercised by management in assessing the Player Relationship Periods;

— On a sample basis, validating operating effectiveness of internal controls in respect of the recognition of revenue from sales of virtual items, including management's review and approval of (i) determination of the estimated lifespan of new virtual items prior to their launches; and (ii) changes in the estimated lifespan of existing virtual items based on periodic reassessment on any indications triggering such changes;

— On a sample basis, assessing the data generated from the Group's information system supporting the management's review, including testing the information system logic for generation of reports, and checking, on a sample basis, the monthly computation of revenue recognised on selected virtual items generated directly from the Group's information system;

— Discussing with management and evaluating their judgements and estimations made in determining the Player Relationship Period and assessing the historical accuracy of the management's estimation process by comparing the actual Player Relationship Period for the preceding year against the original estimation, on a sample basis;

— Validating, on a sample basis, the classification of consumable and durable items by reviewing the prescribed usage of the items and the existence of any implied obligations of the Group to provide the services to game players after the specific in-game virtual items were consumed; and

— Recalculating the contract liabilities balance of different virtual items based on the respective Player Relationship Period on a sample basis.

We consider that the Group's estimates of the revenue recognised is supported by the available evidence.

Loan receivables

Refer to Note 25 to the consolidated financial statements.

The Group tested the amounts of loan receivables for impairment. This impairment test is significant to our audit because the balance of loan receivables of RMB155,394,000 as at 31 December 2019 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

— Assessing the Group's procedures on granting credit limits and credit periods to the borrowers;

— Assessing the Group's relationship and transaction history with the borrowers;

— Evaluating the Group's impairment assessment;

— Assessing ageing of the debts;

— Assessing creditworthiness of the borrowers;

— Checking subsequent settlements from the borrowers;

— Assessing the value of the collateral for the debts; and

— Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

We consider that the Group's impairment test for loan receivables is supported by the available evidence.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include 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. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about the disposal subsidiaries, acquisition of Beijing Xigua and certain corporate loan receivables. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors 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.

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

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

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

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

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

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

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

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

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

We communicate with Audit and Compliance 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 Audit and Compliance 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 Audit and Compliance 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.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Yeung Hong Chun
Audit Engagement Director
Practising Certificate Number P07374

Hong Kong, 28 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Continuing operations			
Revenue	7	**124,279**	129,440
Cost of revenue		**(93,862)**	(47,691)
Gross profit		**30,417**	81,749
Selling and marketing expenses		**(15,828)**	(9,662)
Administrative expenses		**(64,374)**	(50,998)
Research and development expenses		**(29,443)**	(24,134)
Other income	8	**25,811**	12,979
Other (losses)/gains — net	9	**(533)**	88
Finance income — net	10	**1**	1,143
(Loss)/gain on dilution of investment in an associate		**(17)**	11,089
Loss on deregistration of subsidiaries		**(355)**	–
Net loss from changes in the value of investments at fair value through profit or loss		**(4,715)**	–
Loss on transfer of investment in an associate to equity investments at fair value through other comprehensive income		**(158)**	–
Gain on fair value change of derivative financial instrument		**65,131**	–
Share of profits of associates		**16,918**	13,857
Impairment of assets in connection with a newly acquired business	13	**(142,507)**	–
Impairment of financial assets measured at amortised cost	13	**(137,936)**	(39,144)
Loss before income tax		**(257,588)**	(3,033)
Income tax credit/(expense)	11	**13,143**	(1,915)
Loss from continuing operations		**(244,445)**	(4,948)
Discontinued operation			
Loss from discontinued operation	12	**(15,815)**	(315,074)
Loss for the year	13	**(260,260)**	(320,022)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax		**(12,744)**	15,952
Currency translation differences		**197**	1,791
Other comprehensive income for the year, net of tax		**(12,547)**	17,743
Total comprehensive loss for the year		**(272,807)**	(302,279)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000 (Restated)
Loss for the year attributable to:			
Owners of the Company			
— Continuing operations		**(201,279)**	(4,940)
— Discontinued operation		**(14,596)**	(279,937)
		(215,875)	(284,877)
Non-controlling interests			
— Continuing operations		**(43,166)**	(8)
— Discontinued operation		**(1,219)**	(35,137)
		(44,385)	(35,145)
Loss for the year		**(260,260)**	(320,022)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(228,428)**	(267,134)
Non-controlling interests		**(44,379)**	(35,145)
		(272,807)	(302,279)
Basic and diluted loss per share (RMB)	*16*		
— Continuing and discontinued operations		**(1.48)**	(2.09)
— Continuing operations		**(1.38)**	(0.04)
— Discontinued operation		**(0.10)**	(2.05)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property and equipment	*17*	**3,182**	8,155
Intangible assets	*18*	**5,123**	8,124
Right-of-use assets	*19*	**40,891**	–
Investments in associates	*21*	**56,571**	47,567
Investments at fair value through profit or loss	*22*	**–**	5,512
Equity investments at fair value through other comprehensive income	*23*	**38,895**	30,804
Prepayments and other receivables	*26*	**745**	2,767
Deferred tax assets	*33*	**4,381**	–
		149,788	102,929
Current assets			
Trade receivables	*24*	**4,945**	23,100
Loan receivables	*25*	**155,394**	46,512
Prepayments and other receivables	*26*	**14,160**	17,618
Investments at fair value through profit or loss	*22*	**797**	–
Equity investments at fair value through other comprehensive income	*23*	**20,300**	–
Derivative financial instrument	*27*	**80,200**	–
Restricted cash	*28*	**953**	929
Short-term deposits	*28*	**68,862**	41,534
Cash and cash equivalents	*28*	**317,959**	757,018
		663,570	886,711
Total assets		**813,358**	989,640
EQUITY AND LIABILITIES			
Equity			
Share capital	*34*	**102**	86
Reserves	*36*	**687,257**	809,155
		687,359	809,241
Non-controlling interests		**(23,396)**	38,446
Total equity		**663,963**	847,687

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	**2019 RMB'000**	2018 RMB'000
Liabilities			
Non-current liabilities			
Deferred tax liabilities	*33*	**116**	459
Contract liabilities	*31*	**–**	122
Lease liabilities	*32*	**22,498**	–
		22,614	581
Current liabilities			
Trade payables	*29*	**7,576**	29,153
Other payables and accruals	*30*	**76,128**	97,550
Contract liabilities	*31*	**9,275**	6,422
Income tax liabilities		**5,646**	8,247
Lease liabilities	*32*	**28,156**	–
		126,781	141,372
Total liabilities		**149,395**	141,953
Total equity and liabilities		**813,358**	989,640
Net current assets		**536,789**	745,339
Total assets less current liabilities		**686,577**	848,268

The consolidated financial statements on pages 95 to 171 were approved and authorised for issue by the Board of Directors on 28 August 2020 and signed on its behalf by:

HAN Jun
Director

WONG Chi Kin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to Owners of the Company											
	Share Capital RMB'000	Share Premium RMB'000	Shares held for Restricted Share Units Scheme RMB'000	Capital Reserve RMB'000	Statutory Reserves RMB'000	Share-based Compensation Reserve RMB'000	Translation Differences RMB'000	Other Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-Controlling Interests RMB'000	Total RMB'000
At 1 January 2018	87	2,074,087	(9,584)	30,000	14,437	205,187	47,756	(371,782)	(881,487)	1,108,701	72,716	1,181,417
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	1,791	15,952	(284,877)	(267,134)	(35,145)	(302,279)
Transfer of gain on equity investments at fair value through other comprehensive income to retained earnings	–	–	–	–	–	–	–	(3,021)	3,021	–	–	–
Shares purchases for RSU Scheme	–	–	(30,839)	–	–	–	–	–	–	(30,839)	–	(30,839)
Vesting and allotting of shares of RSU Scheme	–	–	11,523	–	–	(7,642)	–	–	(3,881)	–	–	–
Share-based payments	–	–	–	–	–	4,090	–	–	–	4,090	543	4,633
Repurchase and cancellation of shares	(1)	(7,727)	–	–	–	–	–	–	–	(7,728)	–	(7,728)
Profit appropriations to statutory reserves	–	–	–	–	6,053	–	–	–	(6,053)	–	–	–
Disposal of equity interests in a subsidiary without change of control	–	–	–	–	–	–	–	2,151	–	2,151	332	2,483
Changes in equity for the year	(1)	(7,727)	(19,316)	–	6,053	(3,552)	1,791	15,082	(291,790)	(299,460)	(34,270)	(333,730)
At 31 December 2018	86	2,066,360	(28,900)	30,000	20,490	201,635	49,547	(356,700)	(1,173,277)	809,241	38,446	847,687
At 1 January 2019	**86**	**2,066,360**	**(28,900)**	**30,000**	**20,490**	**201,635**	**49,547**	**(356,700)**	**(1,173,277)**	**809,241**	**38,446**	**847,687**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**191**	**(12,744)**	**(215,875)**	**(228,428)**	**(44,379)**	**(272,807)**
Issue of ordinary shares as consideration for a business combination	**16**	**95,991**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**96,007**	**20,856**	**116,863**
Issue of ordinary shares as consideration for equity investment at fair value through other comprehensive income	**1**	**8,077**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,078**	**–**	**8,078**
Repurchase and cancellation of shares	**(1)**	**(4,942)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,943)**	**–**	**(4,943)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**6,076**	**–**	**–**	**–**	**6,076**	**–**	**6,076**
Disposal of equity interest in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(38,319)**	**(38,319)**
Deregistration of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**1,328**	**–**	**–**	**1,328**	**–**	**1,328**
Changes in equity for the year	**16**	**99,126**	**–**	**–**	**–**	**6,076**	**1,519**	**(12,744)**	**(215,875)**	**(121,882)**	**(61,842)**	**(183,724)**
At 31 December 2019	**102**	**2,165,486**	**(28,900)**	**30,000**	**20,490**	**207,711**	**51,066**	**(369,444)**	**(1,389,152)**	**687,359**	**(23,396)**	**663,963**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Cash flows from operating activities		
Loss before income tax		
— Continuing operations	**(257,588)**	(3,033)
— Discontinued operation	**(20,522)**	(344,624)
Adjustments for:		
Depreciation of property and equipment	**9,559**	4,159
Depreciation of right–of–use assets	**16,169**	–
Amortisation of intangible assets	**25,520**	19,346
Dividends from equity investments at fair value through other comprehensive income	**(16,000)**	–
Interest income	**(5,296)**	(12,202)
Finance income – net	**113**	(1,292)
Loss/(gain) on dilution of investment in an associate	**17**	(11,089)
Loss on deregistration of subsidiaries	**355**	–
Net loss from changes in the value of investments at fair value through profit or loss	**4,715**	–
Loss on transfer of investment in an associate to equity investments at fair value through other comprehensive income	**158**	–
Gain on fair value change of derivative financial instrument	**(65,131)**	–
Share of profits of associates	**(16,918)**	(13,857)
Impairment of assets in connection with a newly acquired business	**142,507**	–
Impairment of financial assets measured at amortised cost	**138,473**	40,224
Impairment of intangible assets	**–**	349,126
Loss on disposal of property and equipment	**237**	256
Share–based payments	**6,076**	4,633
Exchange gains, net	**(271)**	(679)
Operating profit before changes in working capital	**(37,827)**	30,968
Change in trade receivables	**7,305**	13,297
Change in prepayments and other receivables	**(57,387)**	65,041
Change in trade payables	**(14,272)**	(5,016)
Change in other payables and accruals	**(43,753)**	(151,624)
Change in contract liabilities	**858**	(752)
Change in loan receivables	**(214,582)**	188,740
Cash (used in)/generated from operations	**(359,658)**	140,654
Interest received	**5,296**	12,202
Income tax paid	**(993)**	(11,221)
Net cash (used in)/generated from operating activities	**(355,355)**	141,635

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Cash flows from investing activities		
Purchases of property and equipment	**(11,744)**	(5,026)
Proceeds from disposals of property and equipment	**508**	1,385
Proceeds from disposal of equity interests in a subsidiary without change of control	**–**	2,483
Net cash outflow arising from disposal of subsidiaries	**(1,834)**	–
Purchases of intangible assets	**(1,548)**	(256)
Proceeds from disposal of investments, net	**4,375**	20,048
Payments for equity investments at fair value through other comprehensive income	**–**	(5,512)
Payments for investments in associates	**–**	(4,300)
Dividends from associate and equity investments at fair value through other comprehensive income	**16,701**	–
Payments for equity investments at fair value through other comprehensive income	**(27,000)**	(5,000)
Payments for acquisition of subsidiaries, net of cash acquired	**(15,585)**	–
Payments for short-term deposits	**(154,756)**	(140,861)
Proceeds received upon maturity of short-term deposits	**127,428**	133,977
Interests received	**1,489**	1,021
Payments for restricted cash	**(24)**	(178)
Net cash used in investing activities	**(61,990)**	(2,219)
Cash flows from financing activities		
Purchases of shares for Restricted Share Units Scheme	**–**	(30,839)
Payments for lease liabilities	**(15,921)**	–
Payments for lease interest	**(1,195)**	–
Payments for repurchase of shares	**(4,943)**	(7,728)
Net cash used in financing activities	**(22,059)**	(38,567)
Net (decrease)/increase in cash and cash equivalents	**(439,404)**	100,849
Cash and cash equivalents at beginning of the year	**757,018**	654,915
Effect of foreign exchange rate changes	**345**	1,254
Cash and cash equivalents at end of the year	**317,959**	757,018
Analysis of cash and cash equivalents		
Cash and cash equivalents	**317,959**	757,018

1. GENERAL INFORMATION

Forgame Holdings Limited (the "Company") was incorporated in the Cayman Islands on 26 July 2011 as an exempted company with limited liability. The address of its registered office is at the offices of Osiris International Cayman Limited, Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, P.O. Box 32311, Grand Cayman KY1-1209, Cayman Islands. The address of its principal place of business is 16/F, Man Yee Building, 60–68 Des Voeux Road Central, Central, Hong Kong. The address of the headquarters is Room 01–02, 60/F, International Metropolitan Plaza, 68 Huacheng Avenue, Guangzhou, China. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The Company and its subsidiaries (collectively the "Group") are principally engaged in developing and publishing domestic and overseas webgames and mobile games as well as offering virtual reality game in physical stores (the "Game Business") and providing internet micro-credit service (the "Internet Micro-credit Business") in the People's Republic of China (the "PRC"). The details of principal activities of its subsidiaries are set out in note 20 to the consolidated financial statements.

On 3 October 2013, the Company completed its initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited (the "IPO").

In December 2016, the Group obtained a license to carry out Internet Micro-credit Business from the government and thereafter commenced the operation of the Group's Internet Micro-credit Business in the PRC. The license was expired in July 2020 and is subjected to renewal assessments by the government.

On 26 April 2019, the Company announced the disposal transaction on the Group's entire 54.54% equity interest in Jlc Inc., at a cash consideration of RMB47,433,000 and the disposal passed by the shareholders as an ordinary resolution by way of poll at the extraordinary general meeting on 29 July 2019.

On 26 June 2019, the Group completed the acquisition of 69.84% equity interest in Beijing Xigua Huyu Technology Co., Ltd. (北京西瓜互娛科技有限責任公司, "Beijing Xigua"), which is principally engaged in offering virtual reality game in physical stores that are equipped with space positioning technology and virtual reality devices.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs ") that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards; and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years except as stated below.

The Group has adopted IFRS 16 "Leases" ("IFRS16") retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the consolidated financial statements on 1 January 2019.

On the adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.75%.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(Continued)

(i) Measurement of lease liabilities and right-of-use assets

	1 January 2019 RMB'000
Operating lease commitments disclosed at 31 December 2018	**14,935**
Discounted using the lessee's incremental borrowing rate at the date of initial application	**12,775**
Less: short-term leases recognised on a straight-line basis as expense	**(575)**
Lease liabilities recognised at 1 January 2019	**12,200**
Of which are:	
Current lease liabilities	**7,971**
Non-current lease liabilities	**4,229**
	12,200

The recognised right-of-use assets relate to the following types of assets:

	1 January 2019 RMB'000
Properties	**12,775**

Adjustments recognised in the consolidated statement of financial position on 1 January 2019

The change in accounting policy affected the following items on 1 January 2019.

— Lease liabilities, increased by RMB12,200,000;

— Right-of-use assets, increased by RMB12,775,000;

— Prepayment, decreased by RMB640,000;

— Other payables, decreased by RMB65,000.

The adoption of IFRS 16 had no material impact on the Group's accumulated losses as at 1 January 2019.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(i) Measurement of lease liabilities and right-of-use assets (Continued)

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

— the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

— the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

— the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

— the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 "Leases" and IFRIC 4" Determining whether an Arrangement Contains a Lease".

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRSs issued by International Accounting Standards Board, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by investments which are carried at their fair values.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, 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. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company' s share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates (Continued)

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate ' s post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group' s interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group. The functional currency of the Company is United States dollars ("US$"). The directors consider that choosing RMB as the presentation currency best suits the needs of the shareholders and investors.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company' s presentation currency are translated into the Company's presentation currency as follows:

(i) 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;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

Depreciation of property and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Furniture and office equipment	5 years
Servers and other equipment	3–5 years
Motor vehicles	5 years
VR Game facilities	3–5 years
Leasehold improvements	Over the shorter of estimated useful lives or remaining terms of the lease

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

The gain or loss on disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Leases

Policy applicable from 1 January 2019

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Properties	20%–50%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

Policy applicable before 1 January 2019

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentive received from the leasor) are recognised as an expenses on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

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

Computer software licenses

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, and recorded in amortisation within operating expenses in the consolidated statement of comprehensive income.

Game intellectual properties and licenses

Game intellectual properties and licenses are initially recorded at cost. These intangible assets are amortised on a straight-line basis over their estimate useful lives (ranged from 2 to 5 years).

Platform, brand name, technology and backlog acquired in business combinations

Platform, brand name, technology and backlog acquired in business combinations are initially recognised at their fair value at the acquisition date (which is regarded as their cost). These intangible assets are amortised on a straight-line basis over the estimated useful lives, as follows:

Platform	5 years
Brand name	5 years
Technology	8 years
Backlog	6–11 months

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Financial assets of the Group are classified as under the following categories:

— Financial assets at amortised cost;

— Equity investments at fair value through other comprehensive income; and

— Investments at fair value through profit or loss.

(a) Financial assets at amortised cost

Financial assets are classified under this category if they satisfy both of the following conditions:

— the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

— the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(b) Equity investments at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the other reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the other reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

(c) Investments at fair value through profit or loss

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade and loan receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Derivative financial instruments

Derivatives (including contingent considerations under business combinations) are initially recognised and subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance;

— the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other revenue

Interest income is recognised using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

Discontinued operation

A discontinued operation is a component of the Group, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale in accordance with IFRS 5, if earlier. It also occurs when the operation is abandoned.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discontinued operation (Continued)

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss and other comprehensive income, which comprises:

— The post-tax profit or loss of the discontinued operation; and

— The gain or loss recognised on the disposal group constituting the discontinued operation.

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave is recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

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

(b) Pension obligations

The Group's subsidiaries incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and other defined contribution social security plans organised by relevant government authorities in the PRC on a monthly basis. Employees of the Group in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on a fixed percentage of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees. The government authorities undertake to assume the retirement benefit obligations payable and other social security payables to all existing and future retired employees under these plans and the Group has no further obligation beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(c) Termination benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment

The Group operates the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme and Restricted Share Units ("RSU") scheme ("RSU Scheme") which is an equity-settled share-based compensation plan under which share awards are granted to certain employees as part of their remuneration packages.

The fair value of the employee services received in exchange for the grant of the share-based awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share-based awards granted:

— including any market performance conditions;

— excluding the impact of any service and non-market performance vesting conditions; and

— including the impact of any non-vesting conditions.

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

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

Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and equity investments at fair value through other comprehensive income, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group' s most senior executive management for the purpose of allocating resources and assessing the performance of the Group' s various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person’s family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash–generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical Judgements in Applying Accounting Policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Contractual Arrangements

The Group' s Game Business is carried out through several domestic operating companies, incorporated in the PRC, namely Guangzhou Weidong Internet Technology Co., Ltd. (廣州維動網絡科技有限公司, "Weidong"), Guangzhou Feiyin Information Technology Co., Ltd. (廣州菲音信息科技有限公司, "Feiyin"), and Guangzhou Jieyou Software Co., Ltd. (廣州捷遊軟件有限公司, "Jieyou"). Mr. Wang Dongfeng, Mr. Huang Weibing, Mr. Liao Dong, Mr. Yang Tao and Mr. Zhuang Jieguang (collectively as the "Founders") are their respective legal shareholders. And the Group's fintech business is also carried out through several domestic operating companies, incorporated in the PRC, namely Jiujiang Yunke Internet Microfinance Co., Ltd. (九江市雲客網絡小額貸款有限公司, "Yunke"). Those domestic operating companies are collectively defined as the "PRC Operational Entities" thereafter.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Critical Judgements in Applying Accounting Policies (Continued)

(i) Contractual Arrangements (Continued)

Pursuant to applicable PRC laws and regulations, foreign investors are restricted from conducting value-added telecommunications services or holding equity interest in an entity conducting such services in China. In order to enable investments be made into the Group's Game Business and fintech business, the Company established a subsidiary, Guangzhou Feidong Software Technology Co., Ltd. (廣州菲動軟件科技有限公司, "Feidong") which is wholly foreign owned enterprises incorporated in the PRC.

Feidong has entered into a series of contractual arrangements (the "Contractual Arrangements") with the PRC Operational Entities and their respective equity holders, which enable Feidong and the Company to:

— exercise effective financial and operational control over the PRC Operational Entities;

— exercise equity holders' voting rights of the PRC Operational Entities;

— receive substantially all of the economic interest returns generated by the PRC Operational Entities in consideration for the business support, technical and consulting services provided by Feidong, at Feidong's discretion;

— obtain an irrevocable and exclusive right to purchase the entire equity interest in the PRC Operational Entities from the respective equity holders. The right automatically renews upon expiry until Feidong specify a renewal term;

— obtain a pledge over the entire equity interest of the PRC Operational Entities from their respective equity holders as collateral security for all of the PRC Operational Entities' payments due to Feidong, and to secure performance of the PRC Operational Entities' obligations under the Contractual Arrangements.

The Company does not have any equity interest in the PRC Operational Entities. However, as a result of the Contractual Arrangements, the Company has rights to variable returns from its involvement with the PRC Operational Entities and has the ability to affect those returns through its power over the PRC Operational Entities and is considered to control the PRC Operational Entities. Consequently, the Company regards the PRC Operational Entities as consolidated structured entities under IFRSs. The Group has included the financial position and results of the PRC Operational Entities in the consolidated financial statements. The corresponding net assets of Feiyin, Weidong and Jieyou included in the consolidated financial statements of the Company amounted to RMB313,122,000, RMB21,160,000 and RMB5,984,000, respectively, as at 31 December 2019.

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

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Critical Judgements in Applying Accounting Policies (Continued)

(ii) Revenue presentation and recognition

Revenue presentation for webgames

For revenues relating to webgames developed by the Group which are published on domestic third party platforms, there are circumstances that the Group is unable to make a reasonable estimate of the gross revenue because the domestic third party game platforms have discretions in determining the actual price of the virtual items to be purchased by the Paying Players and in offering discounts. Accordingly, such revenue is recognised based on the net amount received from the third party platforms. However, if the Group is able to make a reasonable estimate of the gross revenue for some of the webgames published on certain overseas third party platforms, such as Facebook, through tracking the data made available from the platforms, the related revenue is recognised on a gross basis.

Revenue presentation for mobile games and VR game services

For revenues relating to VR game and mobile games developed by the Group which are published on third party platforms, the Group is able to make a reasonable estimation for the gross revenue because the Group can estimate the marketing discounts reliably through tracking the data available from various mobile platforms and mobile telecommunication operators. Accordingly, such revenue is recognised on a gross basis.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Estimates of Player Relationship Period in the Group's Game Business

The Group recognises revenue from durable virtual items in Game Product and from both durable and consumable items in game platform ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. These judgements and estimates included (i) the determination of key assumptions applied in the expected users' relationship periods, including but not limited to historical users' consumption pattern and games life-cycle; and (ii) the identification of events that may trigger changes in the expected users' relationship period. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(b) Fair value of identifiable intangible assets arising from business combination

The Group performed a purchase price allocation exercise in the business combination, and recognised identifiable intangible assets of technology and backlog amounting to RMB64,500,000 in total at the acquisition date. The valuation of the fair value of such identifiable intangible assets involved complex valuation methodology and significant estimates including revenue growth rates, estimated useful lives of the intangible assets and the discount rate.

(c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade, loan and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade, loan and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(d) Impairment assessment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment. Other non-financial assets, mainly including property and equipment, other intangible assets and right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgement is required to determine key assumptions adopted in the valuation models for impairment review purpose. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect the Group's financial condition and results of operations.

(e) Fair value of financial instruments that are not traded in an active market

The fair value of financial instruments includes unlisted investments and the compensation option on non-fulfilment of profit guarantee are not traded in an active market are determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on investees' performance and conditions existing at the end of each reporting year.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The carrying amount of cash and cash equivalents, short-term deposits, restricted cash, trade and other receivables, and loan receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on cash and cash equivalents, short-term deposits and restricted cash are limited because the counterparties are reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

For loan receivables, in order to minimise the credit risk, the Group has established policies and systems for monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow up action is taken to recover overdue debts. In addition, management reviews the recoverable amounts of loan and interest collectively at each reporting date to ensure that adequate allowance for impairment losses are made for irrecoverable amounts.

For trade receivables, a significant portion of trade receivables at the end of the year was due from game platforms. If the strategic relationship with the platforms is terminated or scaled-back; or if the platforms alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's receivables might be adversely affected in terms of recoverability. To manage this risk, the Group assesses the credit quality of the platforms, taking into account their financial position, past trading and payment experience and other factors.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Directors believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring 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 information is used:

— internal credit rating;

— external credit rating (if available);

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

— actual or expected significant changes in the operating results of the borrower;

— significant changes in the value of the collateral or in the quality of guarantees or credit enhancements; and

— significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 365 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group uses two categories for non-trade loan receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12-month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

All of these loans are considered to have low risk and under the 'Performing' category because they have a low risk of default and have strong ability to meet their obligations.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. All of the Group's financial liabilities are due within one year.

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's operating cash flows are substantially independent of changes in market interest rates.

The Group's bank deposits bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

(e) Categories of financial instruments at 31 December

	2019 RMB'000	2018 RMB'000
Financial assets:		
Investments at fair value through profit or loss:		
Mandatorily measured	**80,997**	5,512
Equity investments at fair value through other comprehensive income	**59,195**	30,804
Financial assets at amortised cost (including cash and cash equivalents)	**561,036**	877,315
Financial liabilities:		
Financial liabilities at amortised cost	**77,754**	126,703

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

6. FAIR VALUE MEASUREMENTS (Continued)

(a) Disclosures of level in fair value hierarchy at 31 December:

Description	Fair value measurements using: Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total 2019 RMB'000
Recurring fair value measurements:				
Equity investments at fair value through other comprehensive income				
Private equity investments	**–**	**14,000**	**45,195**	**59,195**
Investments at fair value through profit or loss				
Unlisted convertible bonds	**–**	**–**	**797**	**797**
Derivative financial instrument	**–**	**–**	**80,200**	**80,200**
Total recurring fair value measurements	**–**	**14,000**	**126,192**	**140,192**

Description	Fair value measurements using: Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total 2018 RMB'000
Recurring fair value measurements:				
Equity investments at fair value through other comprehensive income				
Private equity investments	–	–	30,804	30,804
Investments at fair value through profit or loss				
Unlisted convertible bonds	–	–	5,512	5,512
Total recurring fair value measurements	–	–	36,316	36,316

6. FAIR VALUE MEASUREMENTS (Continued)

(b) Reconciliation of assets and liabilities measured at fair value based on level 3:

Description	Derivative financial instrument RMB'000	Investments at fair value through profit or loss RMB'000	Equity investments at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2019	**–**	**5,512**	**30,804**	**36,316**
Total gains or losses recognised				
in profit or loss (note (i))	**65,131**	**(4,715)**	**–**	**60,416**
in other comprehensive income	**–**	**–**	**(13,087)**	**(13,087)**
Additions	**15,069**	**–**	**21,078**	**36,147**
Transfer	**–**	**–**	**6,400**	**6,400**
At 31 December 2019	**80,200**	**797**	**45,195**	**126,192**
Note (i) Include gains or losses for assets held at end of reporting period	**65,131**	**(4,715)**	**–**	**60,416**

Description	Derivative financial instrument RMB'000	Investments at fair value through profit or loss RMB'000	Equity investments at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2018	–	–	15,312	15,312
Total gains or losses recognised				
in profit or loss (note (i))	–	–	–	–
in other comprehensive income	–	–	16,392	16,392
Additions	–	5,512	5,000	10,512
Settlements	–	–	(336)	(336)
Transfer	–	–	(5,564)	(5,564)
At 31 December 2018	–	5,512	30,804	36,316
Note (i) Include gains or losses for assets held at end of reporting period	–	–	–	–

6. FAIR VALUE MEASUREMENTS (Continued)

(b) Reconciliation of assets and liabilities measured at fair value based on level 3: (Continued)

The total gains or losses recognised in other comprehensive income are presented in change in fair value of equity investments at fair value through other comprehensive income, net of tax in the consolidated statement of profit or loss and other comprehensive income.

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in net loss from changes in the value of investments at fair value through profit or loss in the consolidated statement of profit or loss and other comprehensive income.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2019:

The Group's chief financial officer is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The chief financial officer reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the chief financial officer and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group has a team that manages the valuation exercise of level 3 financial instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case-by-case basis. At least twice every year, the team would use valuation techniques to determine the fair value of the Group's level 3 financial instruments. External valuation experts will be involved when necessary.

Level 2 fair value measurements

Description	Valuation technique	inputs	Fair value 2019 RMB'000
Equity investments at fair value through other comprehensive income			
Private equity investments	cost approach	investment cost	14,000

6. FAIR VALUE MEASUREMENTS (Continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2019: (Continued)

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2019 RMB'000
Equity investments at fair value through other comprehensive income					
Private equity investments	**Market comparable approach**	**Lack of marketability discount**	**21.8%–40%**	**Decrease**	**45,195**
Investments at fair value through profit or loss					
Unlisted convertible bonds	**Binomial tree model**	**Bond yield**	**37.62%–45.68%**	**Decrease**	**797**
		Volatility	**58%**	**Increase**	
		Financing opportunity	**5%**	**Increase**	
Derivative financial instrument	**Income approach**	**Discount rate**	**3.13%**	**Decrease**	**80,200**

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2018 RMB'000
Equity investments at fair value through other comprehensive income					
Private equity investments	Market comparable approach	Lack of marketability discount	40%	Decrease	30,804
Investments at fair value through profit or loss					
Unlisted convertible bonds	Binomial tree model	Bond yield	37.62%–45.68%	Decrease	5,512
		Volatility	58%	Increase	
		Financing opportunity	5%	Increase	

7. REVENUE AND SEGMENT INFORMATION

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the Chief Operating Decision Maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

In 2019, the Group completed the acquisition of Beijing Xigua, and disposed of the subsidiary principally engaged in the provision of financial information service. Information about the business combination and discontinued operation is set out in Notes 38 and 12, respectively. During the year, the CODM reassessed the performance and operation of the Group and concluded that the Group has two operating segments as follows:

— Game Business
— Internet Micro-credit Business

The CODM assesses the performance of the operating segments mainly based on segment revenue, and adjusted (losses)/earnings before interest expense, taxes, depreciation and amortisation ("adjusted EBITDA") excluding (loss)/gain on dilution of investment in an associate and share of profit of associates, of each operating segment.

Specifically, the revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. In addition, adjusted EBITDA excludes the effects of significant items of income and expenditure which may have an impact on the assessment of operating segments' results, primarily with respect to changes in the value of investments at fair value through profit or loss and effects of equity-settled share-based payments, non-recurring event such as loss on transfer of investment in an associate to equity investments at fair value through other comprehensive income, gain on fair value change of derivative financial instrument, loss on deregistration of subsidiaries, dividends received from equity investments at fair value through other comprehensive income, impairment of intangible assets arising from business combination and impairment of other receivables arising from disposal of investment in an associate/a subsidiary.

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these consolidated financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

The segment information from continuing operations provided to the Group's CODM for the reportable segments for the years ended 31 December 2019 and 2018 is as follows:

	2019 **RMB'000**	2018 RMB'000 (Restated)
Revenue from continuing operations		
Game Business — revenue from contracts with customers	**83,578**	90,886
Internet Micro-credit Business	**40,701**	38,554
Total revenue	**124,279**	129,440
Adjusted EBITDA from continuing operations		
Game Business	**(90,683)**	(12,062)
Internet Micro-credit Business	**(88,184)**	18,153
Share of profits of associates	**16,918**	13,857
(Loss)/gain on dilution of investment in an associate	**(17)**	11,089
Total adjusted EBITDA from continuing operations	**(161,966)**	31,037

7. REVENUE AND SEGMENT INFORMATION (Continued)

Adjusted (LBITDA)/EBITDA reconciles to loss before income tax from continuing operations as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
		(Restated)
Total adjusted (LBITDA)/EBITDA from continuing operations	**(161,966)**	31,037
Net interest income	**5,297**	10,205
Depreciation and amortisation	**(46,327)**	(2,893)
Share-based compensation	**(3,612)**	(2,007)
Changes in the value of investments at fair value through profit or loss	**(4,715)**	–
Loss on transfer of investment in an associate to equity investments at fair value through other comprehensive income	**(158)**	–
Gain on fair value change of derivative financial instrument	**65,131**	–
Loss on deregistration of subsidiaries	**(355)**	–
Dividends received from equity investments at fair value through other comprehensive income	**16,000**	–
Impairment of intangible assets arising from business combination	**(93,680)**	–
Impairment of other receivables arising from disposal of investment in an associate	**–**	(39,375)
Impairment of other receivables arising from disposal of investment in a subsidiary	**(33,203)**	–
Loss before income tax from continuing operations	**(257,588)**	(3,033)

Disaggregation of revenue from contracts with customers

Geographical information:

	2019	2018
	RMB'000	RMB'000
		(Restated)
Continuing operations		
PRC (excluding Hong Kong)	**57,013**	44,733
Other regions	**26,565**	46,153
	83,578	90,886
Discontinued operation		
PRC (excluding Hong Kong)	**41,054**	194,803
	124,632	285,689

As at 31 December 2019 and 2018, majority of the non-current assets of the Group were located in the PRC.

7. REVENUE AND SEGMENT INFORMATION (Continued)

Timing of revenue recognition:

	2019 RMB'000	2018 RMB'000 (Restated)
Continuing operations		
At a point in time	**51,466**	49,108
Over time	**32,112**	41,778
	83,578	90,886
Discontinued operation		
Over time	**41,054**	194,803
	124,632	285,689

Revenue from major customers:

No revenue is derived from any individual which amounted for over 10% of the Group's total revenue (2018: nil).

Revenue recognition

Webgame and Mobile Game Business

— *Game Product*

The Group provides game product development services through game platforms, which are either self-owned or operated by third parties.

The Group's games are free-to-play and players can pay for virtual items for better in-game experience. Players purchase game credits ("Paying Players") through the platform's charging system and use the game credits to exchange in-game virtual items. Paying Players usually exchange their game credits for the virtual items shortly after purchases. The monetary value of the virtual items sold is shared between the Group and the platforms, which is pre-determined in revenue sharing arrangements ("Revenue Sharing Arrangements") enacted between the Group and each of the platforms. The platforms collect the payments made by Paying Players and remit the cash to the Group according to the Revenue Sharing Arrangements.

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

7. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue recognition (Continued)

Webgame and Mobile Game Business (Continued)

— *Game Product* (Continued)

For the purposes of determining when services have been rendered to the respective Paying Players, the Group has determined the following:

(i) Consumable virtual items represent items that will be extinguished shortly after consumption by a specific game player action. The Paying Players will not continue to benefit from the virtual items thereafter. Revenue is recognised (as a release from deferred revenue) when items are consumed.

(ii) Durable virtual items represent items that are accessible and beneficial to Paying Players over an extended period of time. Revenue is recognised ratably over the average Player Relationship Period, which represents the best estimates of the average life of durable virtual items for the applicable game.

The Group determines the Player Relationship Period on a game-by-game and platform-by-platform basis by tracking the player data, such as log-in data and purchase/consumption records. If there is insufficient player data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games of the Group or third-party developers, taking into account the game profile, target audience and its appeal to Paying Players of different demographic groups, until the new game establishes its own history, which is normally up to 12 months after launch. The Group re-assesses such periods semi-annually.

The Group has evaluated the roles and responsibilities in the delivery of game experience to the Paying Players and concluded that the Group takes the primary responsibilities in the game product service. The Group is determined to be the primary obligor and reports gross revenue. Due to the fact that the third party platforms may offer various marketing discounts from time to time to Paying Players, the actual prices paid by any individual paying player may be lower than the standard prices of virtual items purchased, with the balance being subsidised by the platforms, accordingly, the Group has to attempt to make a reasonable estimation for the gross revenue amount through tracking third party platforms' marketing activities.

Nevertheless, for the Group's webgames which are published through a large number of domestic third party platforms, since those platforms would offer various market discounts to Paying Players, it is difficult for the Group to make a reasonable estimation for the gross revenue, as such, the Group reports revenue to the extent of the amounts received and receivable from those domestic third party platforms under the Revenue Sharing Arrangements.

However, if the Group is able to make a reasonable estimate of the gross revenue for some of webgames published on certain reputable international platforms, such as Facebook, and for the Group's mobile games published through various mobile platforms, the related revenue is recognised on a gross basis.

The Group also derives revenue from licensing and technical support services on a game-by-game basis. Licensing revenue is recognised on a straight-line basis over the respective licensing periods. Technical support revenue is recognised when the services are rendered.

7. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue recognition (Continued)

Webgame and Mobile Game Business (Continued)

— *Game Platform*

The Group provides game platform service through cooperation with game developers to Paying Players. The Group publishes its self-developed and third party games on its platform. As described in above, the games are free-to-play and players can pay for in-game virtual items for better in-game experience.

The Group's Game Platform revenue mainly derives from Revenue Sharing Arrangements (details described in above) from game developers. The games published on self-owned platform are hosted, maintained and updated by the game developers, and the Group mainly provides access to the platform and certain basic and limited after-sale technical support to the Paying Players. The Group has evaluated and determined it is not the primary obligor in the services rendered to the Paying Players as a platform. Accordingly, the Group records its revenue, net of the portion of sharing of revenues with the game developers.

The Group believes that it has an implied obligation to the game developers; which corresponds to the implied obligation of the game developers' to provide the services to game players to enable the virtual items to be displayed and consumed/used in the games. Given that games are hosted, managed and administered by the game developers, the Group does not have access to the data relating to the consumption details; as well as the types of virtual items being purchased by the Paying Players. However, the Group maintains individual Paying Player's purchase history of game credits which are used for exchange for virtual items. As such, the Group has adopted a policy to recognise revenues for both consumable and durable items exchanged by game credits over the Player Relationship Period (details described in above) on a game-by-game basis.

Paying Players make payments through various online and mobile payment channels, which in turn charge handling fees at a certain percentage on the gross purchase amounts. The Group recorded the charges in "cost of revenue".

VR Gaming Business

Revenue from VR Game Business derived from VR stores operating revenue generated in self-owned physical stores, contracts with franchisees for franchised physical stores as well as promotion services in the physical stores.

— *VR stores operating revenue*

The Group provides VR game equipment and venue to customers to enjoy the VR gaming experience in self-owned physical stores. The Group collects service fee from customers (i.e. game players) mainly via third parties online payment platforms in advance and recognises the prepaid services fee as deferred revenue. VR stores operating revenue is recognised according to unit price and numbers of times of game players played game. Since the Group normally has the ability to determine the pricing of the services and has taken responsibility for delivery the services through the self-owned physical stores, the Group is regarded as the primary obligor and recognises revenue on a gross basis.

7. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue recognition (Continued)

VR Gaming Business (Continued)

— *Franchise and management revenue*

The Group had engaged franchisees to operate VR game stores under the franchise model and the franchise-and-management model. Pursuant to franchise agreements entered with franchisees, franchisees are responsible for the costs and expenses of establishment and operation of VR stores. Under franchise model, the Group provides franchise services including the right-of-use of the brand and the operation system and consulting services. Under franchise-and-management model, the Group provides franchise services as well as management service to the daily operation of VR games. Franchise and management revenue is recognised when the services rendered and the consideration received or receivable by the Group.

— *Promotion services in the physical stores*

The Group provides promotion services to customers by displaying their products or advertisements in the VR physical stores. The Group recognises the revenue on a straight-line basis over the contracted period with customers in which the products or advertisements are displayed in the VR physical stores.

Internet Micro-credit Business

The Group's Internet Micro-credit Business revenue represents its interest income derived from providing microcredit loans to borrowers. Interest income is recognised using the effective interest method.

8. OTHER INCOME

	2019 **RMB'000**	2018 RMB'000 (Restated)
Interest revenue	**5,296**	9,062
Government grants	**4,515**	3,917
Dividends from equity investments at fair value through other comprehensive income	**16,000**	–
	25,811	12,979

9. OTHER (LOSSES)/GAINS — NET

	2019 **RMB'000**	2018 RMB'000 (Restated)
Loss on disposals of property and equipment	**(237)**	(256)
Exchange gains, net	**330**	344
Others	**(626)**	–
	(533)	88

10. FINANCE INCOME — NET

	2019 RMB'000	2018 RMB'000 (Restated)
Interest income on short-term deposits and others	**1,049**	1,143
Interest expense on lease liabilities	**(1,048)**	–
	1	1,143

11. INCOME TAX CREDIT/(EXPENSE)

	2019 RMB'000	2018 RMB'000 (Restated)
Current tax — PRC and oversea enterprise income tax	**(125)**	(1,391)
Deferred tax	**13,268**	(524)
	13,143	(1,915)

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

The income tax provision of the Group in respect of operations in Hong Kong is provided at 8.25% on assessable profits up to HK$2,000,000, and the applicable tax rate is 16.5% on any part of assessable profits over HK$2,000,000. (2018: 16.5%) based on the assessable profit for the year.

The income tax provision of the Group in respect of operations in Taiwan is provided at 19% on assessable profits (2018: 19%).

The income tax provision of the Group in respect of operations in the PRC was calculated at the tax rate of 25% on the assessable profits for the years ended 31 December 2019 and 2018, based on the existing legislation, interpretations and practices in respect thereof.

Weidong and Feiyin had renewed their qualification of "High and New Technology Enterprises" ("HNTEs") under the PRC Enterprise Income Tax Law ("EIT Law") in 2015 and their qualification were expired in 2018. Weidong and Feiyin have not renewed for Weidong an Feiyin their qualification of HNTEs during the year ended 31 December 2019 yet, thus the applicable tax rate was 25% for the year ended 31 December 2019 (2018: 15%).

Feidong has renewed its qualification of HNTEs under the EIT Law in 2017, thus the applicable tax rate was 15% for the years ended 31 December 2019 and 2018.

Beijing Xigua was qualified as HNTEs under the EIT Law in 2018, thus the applicable tax rate was 15% for the years ended 31 December 2019.

11. INCOME TAX CREDIT/(EXPENSE) (Continued)

Tianjin Wanke Technology Co., Ltd. (天津玩氪科技有限公司, "Tianjin Wanke") is qualified as a small low-profit enterprise ("SLPE"). According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that became effective from 2019 onwards, the applicable tax rate was 20% for the SLPE. For the SLPE of annual taxable income less than or equal to RMB1,000,000, the effective taxable income is calculated based on 25% of the annual taxable income. For the SLPE of annual taxable income over RMB1,000,000 and less than or equal to RMB3,000,000, the effective taxable income is calculated based on 50% of the annual taxable income.

According to the relevant EIT Laws jointly promulgated by the Ministry of Finance of the PRC, State Tax Bureau of the PRC, and Ministry of Science of the PRC that became effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction").

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% PRC withholding tax ("WHT"). If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

No deferred income tax liability has been recognised in respect of WHT on the undistributed earnings of the subsidiaries incorporated in the PRC as those PRC subsidiaries with foreign immediate parent are all with accumulated losses (i.e. without any distributable earnings) as of 31 December 2019 and 2018.

The tax on the Group' s loss before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to losses of the consolidated entities as follows:

	2019 **RMB'000**	2018 RMB'000 (Restated)
Loss before income tax	**(257,588)**	(3,033)
Tax calculated at statutory income tax rates applicable to losses of the consolidated entities in their respective jurisdictions	**(53,876)**	(1,278)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	**17,068**	6,449
Utilisation of previously unrecognised tax losses	**(6,581)**	(4,130)
Tax losses and timing differences for which no deferred income tax asset was recognised	**37,389**	3,481
Super deduction of research and development expenses	**–**	(1,661)
Tax effect of expenses not deductible/(income not taxable), net	**(2,762)**	(946)
Tax losses for timing differences for which deferred income tax asset was recognised	**(4,381)**	–
Income tax (credit)/expenses	**(13,143)**	1,915

12. DISCONTINUED OPERATION

On 26 April 2019, the Company announced the disposal transaction on the Group ' s entire 54.54% equity interest in Jlc Inc., at a cash consideration of RMB47,433,000 and the disposal was completed on 31 July 2019. As a result, the financial performance of Jlc Inc. was then classified as discontinued operation of the Group for the seven months ended 31 July 2019. The comparative figures of the financial performance for the year ended 31 December 2018 have been restated on such basis.

The Group's loss for the year is stated after (charging)/crediting the following:

	2019 **RMB'000**	2018 RMB'000
Loss of discontinued operation	**(19,074)**	(315,074)
Gain on disposal of discontinued operation (note 38 (b))	**3,259**	–
	(15,815)	(315,074)

The results of the discontinued operation for the period from 1 January 2019 to 31 July 2019, which have been included in consolidated profit or loss and other comprehensive income, are as follows:

	Seven months ended 31 July 2019 **RMB'000**	Year ended 31 December 2018 RMB'000
Revenue	**41,054**	194,803
Cost of revenue	**(2,003)**	(38,222)
Expenses	**(63,603)**	(154,531)
Other income	**4,756**	3,140
Other (losses)/gains — net	**(75)**	231
Finance (cost)/income — net	**(114)**	149
Impairment of intangible assets	**–**	(349,126)
Impairment of financial assets measured at amortised cost	**(537)**	(1,068)
Loss before income tax	**(20,522)**	(344,624)
Income tax credit	**1,448**	29,550
Loss from discontinued operation	**(19,074)**	(315,074)
Net cash (outflow)/inflow from operating activities	**(96,328)**	48,858
Net cash outflow from investing activities	**(161)**	(223)
Net cash outflow from financing activities	**(1,731)**	–
Net cash (used in)/generated from the subsidiary	**(98,220)**	48,635

No tax charge or credit arose on gain on disposal of the discontinued operation.

13. LOSS FOR THE YEAR

The Group's loss for the year from continuing operations is stated after charging/(crediting) the following:

	2019 RMB'000	2018 RMB'000 (Restated)
Amortisation of intangible assets	**25,106**	1,211
Depreciation of right-of-use assets	**13,460**	–
Depreciation of property and equipment	**7,761**	1,682
Auditor's remuneration		
— Audit service	**3,800**	–
— Audit services — former auditor	**4,400**	5,000
— Non-audit services — former auditor	**168**	177
Impairment of assets in connection with a newly acquired business		
— provision of impairment for property and equipment	**25,428**	–
— provision of impairment for intangible assets	**94,747**	–
— provision of impairment for right-of-use assets	**11,036**	–
— provision of impairment for other receivables	**11,296**	–
	142,507	–
Impairment of financial assets measured at amortised cost		
— (reversal)/provision of impairment for trade receivables, net	**(761)**	3,099
— provision/(reversal) of impairment for loan receivables	**105,700**	(3,510)
— provision of impairment for other receivables, net	**32,997**	39,555
	137,936	39,144
Staff costs including directors' emoluments		
— Fees, wages, salaries and bonus	**70,778**	48,708
— Pension costs — defined contribution plans	**8,100**	6,057
— Social security costs, housing benefits and other employee benefits	**4,361**	3,337
— Share-based compensation expenses	**3,612**	2,007
	86,851	60,109

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and chief executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules, is as follows:

	2019						
Name of directors	Fees RMB'000	Salaries RMB'000	Discretionary Bonus RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Housing Allowance RMB'000	Estimated monetary value of other benefits (note i) RMB'000	Total RMB'000
Executive directors:							
Wang Dongfeng (ii)	–	1,472	–	58	44	589	2,163
Liang Na (iii)	–	1,953	489	32	38	1,255	3,767
Zhang Yang (iv)	–	935	–	31	22	28	1,016
Li Luyi (v)	–	624	–	28	21	27	700
Han Jun (vi)	–	39	–	8	6	7	60
Non-executive director:							
Zhang Qiang	276	–	–	–	–	130	406
Independent non-executive directors:							
How Sze Ming (vii)	276	–	–	–	–	130	406
Zhao Cong Richard (vii)	276	–	–	–	–	130	406
Wan Joseph Jason (vii)	276	–	–	–	–	130	406
	1,104	5,023	489	157	131	2,426	9,330

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

(a) Directors' and chief executive's emoluments (Continued)

	2018						
Name of directors	Fees RMB'000	Salaries RMB'000	Discretionary Bonus RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Housing Allowance RMB'000	Estimated monetary value of other benefits (note i) RMB'000	Total RMB'000
Executive directors:							
Wang Dongfeng (ii)	–	1,186	–	67	46	705	2,004
Liang Na (iii)	–	1,910	962	24	24	723	3,643
Zhang Yang (iv)	–	1,797	1,169	55	35	432	3,488
Non-executive director:							
Zhang Qiang	265	–	–	–	–	117	382
Independent non-executive directors:							
How Sze Ming (vii)	265	–	–	–	–	117	382
Poon Philana Wai Yin	106	–	–	–	–	–	106
Zhao Cong Richard (vii)	265	–	–	–	–	117	382
Wan Joseph Jason (vii)	159	–	–	–	–	69	228
	1,060	4,893	2,131	146	105	2,280	10,615

Notes:

(i) Other benefits mainly include share-based awards compensation.

(ii) Mr. Wang Dongfeng resigned as the executive director and the chief executive officer ("CEO") of the Company with effect from 30 September 2019.

(iii) Ms. Liang Na has resigned from the position of joint chief financial officer with effect from 30 June 2020. She will be re-designated from executive director to non-executive director with effect from 1 July 2020.

(iv) Mr. Zhang Yang resigned as an executive director of the Company with effect from 28 May 2019.

(v) Ms. Li Luyi was appointed as an executive director on 14 April 2019. She was re-designated from the co-chief operations officer to the chief operations officer of the Group on 28 May 2019. She was appointed as the chairman of the Board, the chairman of the Nomination Committee, and the Authorised Representative and was re-designated from the chief operations officer of the Group to chief executive officer on 30 September 2019. She resigned as Executive Director, the chairman of the Board, the chief executive officer, the chairman of the Nomination Committee and the Authorised Representative on 7 November 2019.

(vi) Mr. Han Jun was appointed as an executive director and CEO of the Company with effect from 11 November 2019.

(vii) Mr. How Sze Ming, Mr. Zhao Cong Richard and Mr. Wan Joseph Jason resigned as the independent non-executive director with effect from 30 April 2020.

(viii) Mr. Wang Dong and Mr. Wong Chi Kin were appointed as independent non executive directors with effect from 27 April 2020. Mr. Cui Yuzhi was appointed as an independent non executive directors with effect from 7 May 2020.

(ix) During the year, no directors waived or agreed to waive any emoluments.

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

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES
(Continued)

(b) Directors' material interests in transactions, arrangements or contracts

No other significant transactions, arrangements and contracts in relation to the Group' s business to 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 or at any time during the year ended 31 December 2019 (2018: nil).

(c) Five highest paid employees

The five highest paid employees of the Group during the year included 3 directors (2018: 3 directors) whose remuneration are set out in note 14(a) above. Details of the remuneration for the year of the remaining 2 (2018: 2) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 **RMB'000**	2018 RMB'000
Fees, wages and salaries	**1,874**	2,052
Bonuses	**–**	120
Pension costs — defined contribution plans	**32**	78
Social security costs, housing benefits and other employee benefits	**63**	132
Share-based compensation expenses	**–**	739
	1,969	3,121

The number of the highest paid employees who are not the Directors and whose remuneration falls within the following bands:

	Number of individuals	
	2019	2018
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**–**	2

15. DIVIDENDS

No dividends was paid or proposed for ordinary shareholders of the Company during 2019, nor has any dividend been proposed at the end of the reporting period (2018: nil).

16. LOSS PER SHARE

Basic loss per share

The basic loss per share for the year ended 31 December 2019 is calculated based on the loss attributable to the owners of the Company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

	2019	2018
	RMB'000	RMB'000
Loss attributable to owners of the Company:		
From continuing operations	**(201,279)**	(4,940)
From discontinued operation	**(14,596)**	(279,937)
	(215,875)	(284,877)

	2019	2018
Weighted average number of ordinary shares for the year ended 31 December	**145,413,567**	136,157,763

Diluted loss per share

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2019 and 2018.

17. PROPERTY AND EQUIPMENT

	Furniture and Office Equipment RMB'000	Servers and other Equipment RMB'000	Motor Vehicles RMB'000	VR Game Facilities RMB'000	Leasehold Improvements RMB'000	Total RMB'000
Cost						
At 1 January 2018	5,096	15,654	2,706	–	17,301	40,757
Additions	762	14	–	–	3,533	4,309
Disposals	(987)	(3,927)	(508)	–	(9,892)	(15,314)
At 31 December 2018 and 1 January 2019	4,871	11,741	2,198	–	10,942	29,752
Additions	231	60	–	6,916	9,502	16,709
Acquisition of a subsidiary	84	–	–	9,135	7,361	16,580
Disposal of a subsidiary	(1,592)	(490)	–	–	(4,118)	(6,200)
Disposals	(1,725)	(3,819)	(261)	(402)	(2,423)	(8,630)
At 31 December 2019	1,869	7,492	1,937	15,649	21,264	48,211
Accumulated depreciation and impairment						
At 1 January 2018	2,989	13,472	2,469	–	13,262	32,192
Charge for the year	839	867	103	–	2,350	4,159
Disposals	(917)	(3,461)	(484)	–	(9,892)	(14,754)
At 31 December 2018 and 1 January 2019	2,911	10,878	2,088	–	5,720	21,597
Charge for the year	617	146	54	1,949	6,793	9,559
Disposal of a subsidiary	(815)	(256)	–	–	(2,821)	(3,892)
Disposals	(1,383)	(3,576)	(235)	(46)	(2,423)	(7,663)
Impairment loss	138	–	–	12,911	12,379	25,428
At 31 December 2019	1,468	7,192	1,907	14,814	19,648	45,029
Carrying amount						
At 31 December 2019	**401**	**300**	**30**	**835**	**1,616**	**3,182**
At 31 December 2018	1,960	863	110	–	5,222	8,155

Depreciation for the year included in following categories in the profit and loss:

	2019 RMB'000	2018 RMB'000
Continuing operations	**7,761**	1,682
Discontinued operation	**1,798**	2,477
	9,559	4,159

18. INTANGIBLE ASSETS

	Game Intellectual Properties and Licenses RMB'000	Computer Software Licenses RMB'000	Goodwill RMB'000	Technology RMB'000	Platform RMB'000	Brand Name RMB'000	Backlog RMB'000	Total RMB'000
Cost								
At 1 January 2018	78,496	10,886	207,469	–	138,200	37,200	16,100	488,351
Expired	(38,038)	(204)	–	–	–	–	–	(38,242)
At 31 December 2018 and 1 January 2019	40,458	10,682	207,469	–	138,200	37,200	16,100	450,109
Addition	1,223	966	–	–	–	–	–	2,189
Acquisition of a subsidiary	–	327	52,644	34,600	–	–	29,900	117,471
Disposal of a subsidiary	(2,915)	(202)	(207,469)	–	(138,200)	(37,200)	(16,100)	(402,086)
Expired	(12,086)	(194)	–	–	–	–	–	(12,280)
At 31 December 2019	26,680	11,579	52,644	34,600	–	–	29,900	155,403
Accumulated Amortisation and impairment loss								
At 1 January 2018	75,156	4,296	1,586	–	11,517	3,100	16,100	111,755
Charge for the year	760	1,046	–	–	13,820	3,720	–	19,346
Expired	(38,038)	(204)	–	–	–	–	–	(38,242)
Impairment loss	–	–	205,883	–	112,863	30,380	–	349,126
At 31 December 2018 and 1 January 2019	37,878	5,138	207,469	–	138,200	37,200	16,100	441,985
Charge for the year	533	1,523	–	2,163	–	–	21,301	25,520
Disposal of a subsidiary	(679)	(44)	(207,469)	–	(138,200)	(37,200)	(16,100)	(399,692)
Expired	(12,086)	(194)	–	–	–	–	–	(12,280)
Impairment loss	1,034	33	52,644	32,437	–	–	8,599	94,747
At 31 December 2019	26,680	6,456	52,644	34,600	–	–	29,900	150,280
Carrying amount								
As at 31 December 2019	–	5,123	–	–	–	–	–	5,123
As at 31 December 2018	2,580	5,544	–	–	–	–	–	8,124

18. INTANGIBLE ASSETS (Continued)

Amortization for the year included in following categories in the profit and loss:

	2019 RMB'000	2018 RMB'000
Continuing operations	**25,106**	1,211
Discontinued operation	**414**	18,135
	25,520	19,346

The impairment of intangible assets arising from business combination

On 26 June 2019 ("the Acquisition Date"), the Group completed the acquisition of 69.84% equity interest in Beijing Xigua (Note 38(a)). The purchase consideration is settled through cash amounting to RMB20,000,000 and issuing 22,268,908 new ordinary shares at a fair value of RMB96,007,000. In this connection, the Group recognised identifiable intangible assets of technology and backlog amounting to RMB64,500,000 in total and the goodwill amounting to RMB52,644,000 on the Acquisition Date.

Upon the completion of the acquisition of Beijing Xigua by the Group, Beijing Xigua started to execute a series of new business development plans, including opening a number of new self-operated and franchised stores ("new stores"). However, the business of Beijing Xigua did not further expand, due to the numbers of new stores opened were lower than the expected and, the performance of store was not as promising as expected, which also led to an operating loss based on the unaudited performance of Beijing Xigua for the year ended 31 December 2019.

After careful deliberation, Directors of the Company considered that the recovery of the Beijing Xigua's business remains uncertain as the rapid and unexpected deterioration in the trading position of Beijing Xigua since October 2019. The Group has decided to close down a number of stores to minimize the adverse impact on the operations and financial position of the Company, which may lead to a significant decrease in revenue and triggered Directors of the Company to re-assess the potential impairment of intangible assets arising from the operations.

Directors of the Company assessed that the original projected cash flows to support the impairment of the aforementioned intangible assets of Beijing Xigua as at the time of acquisition would no longer be valid. In addition, there are significant decrease in future projecting or estimating cash flow to be generated from the stores after a number of stores to be closed down, as well as the estimated recoverable amounts of the stores operated under Beijing Xigua using value-in-use method or fair value less costs of disposal method. Accordingly, the board of directors of the Company concluded that the whole carrying amounts of the aforementioned identifiable intangible assets and goodwill associated with the Beijing Xigua's operation had been fully impaired and impairment loss of RMB94,747,000 was recognised in the current report period.

19. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2019 RMB'000
At 31 December	
— Properties	**40,891**
Lease commitments of short-term leases	**511**
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:	
— Less than 1 year	**29,008**
— Between 1 and 2 years	**19,398**
— Between 2–5 years	**5,235**
	53,641

Year ended 31 December	2019 RMB'000
Depreciation charge of right-of-use assets	
— Properties from continuing operations	**13,460**
— Properties from discontinued operation	**2,709**
	16,169
Impairment for right-of-use assets	**11,036**
Lease interests from continuing operations	**1,048**
Lease interests from discontinued operation	**147**
Expense relating to short-term leases (included in cost of revenue)	**2,253**
Expense relating to variable lease payments not included in lease liabilities (included in cost of revenue)	**1,346**
Total cash outflow for leases	**17,116**
Additions to right-of-use assets	**59,675**

The Group leases properties. Lease agreements are typically made for fixed periods of 2–3.5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

20. SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

Particulars of the Group's principal subsidiaries and controlled structured entities as at 31 December 2019 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/profit sharing 2019 and 2018 Direct	Indirect	Principal activities
Feidong	The PRC	US$15,000,000	–	100%	Software development and provision of information technology services
Feiyin*	The PRC	RMB10,000,000	–	100%	Development of webgames and mobile games
Weidong*	The PRC	RMB10,000,000	–	100%	Development and operation of webgames and mobile games
Jieyou*	The PRC	RMB10,000,000	–	100%	Development and operation of webgames and mobile games
Yunke*	The PRC	RMB500,000,000	–	100%	Micro-credit services
Mutant Box Limited ("Mutant Box")	Hong Kong	HK$100	–	70%	Operation of webgames and mobile games
Beijing Xigua	The PRC	RMB1,833,432	–	69.84%	Development and operation of virtual reality games and services
Tianjin Wanke Technology Co., Ltd. (天津玩氪科技有限公司) ("Tianjin Wanke")	The PRC	RMB10,000,000	–	69.84%	Development and operation of virtual reality games and services

* These companies are the Group's consolidated structured entities.

20. SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Continued)

The English names of certain companies referred herein represent management's best effort at translating the Chinese names of these companies as no English name has been registered.

The Company has set up a structured entity ("Restricted Share Units Scheme Trust") solely for the purpose of purchasing, administering and holding the Company's shares for the Restricted Share Units Scheme (Note 37(c)), the Company has the power to direct the relevant activities of the Restricted Share Units Scheme Trust and it has the ability to use its power over the Restricted Share Units Scheme Trust to affect its exposure to returns. Therefore, the assets and liabilities of the Restricted Share Units Scheme Trust are included in the Group's consolidated statement of financial position and the shares it held are presented as a deduction in equity as Shares held for Restricted Share Units Scheme.

21. INVESTMENTS IN ASSOCIATES

	2019 **RMB'000**	2018 RMB'000
Unlisted investments in PRC:		
Associates	**56,571**	47,567

Particulars of the Group's major associates as at 31 December 2019 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/profit sharing 2019 and 2018 Direct	Indirect	Principal activities
Beijing Sharetimes Technology Limited Company 北京分享時代科技有限公司 ("Beijing Sharetimes") (Note i)	The PRC	RMB24,080,324	10.38%	–	Develops and operates intellectual properties of celebrities
Fuzhou Reyou Network Technology Co., Ltd. (福州市熱遊網絡科技有限公司) ("Fuzhou Reyou") (Note i)	The PRC	RMB1,000,000/ RMB250,000	18.00%	–	Information transmission, software and information technology service

Notes:

(i) Although the Group holds less than 20% of the voting power of Beijing Sharetimes and Fuzhou Reyou, the Group exercises significant influence over Beijing Sharetimes and Fuzhou Reyou because the Group is entitled to appoint director into the board.

(ii) During the year ended 31 December 2019, the Group lost the seat in the board of directors of the investee in which the Group finally hold 18.18% equity interest. As a result, the Group no longer have significant influence over the investees and accounted for the investment as equity investments at fair value through other comprehensive income, which were previously recognised as an associate.

21. INVESTMENTS IN ASSOCIATES (Continued)

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2019 RMB'000	2018 RMB'000
At 31 December:		
Carrying amounts of interests	**56,571**	47,567
Year ended 31 December:		
Revenue	**447,348**	503,169
Profit and total comprehensive income	**138,165**	88,339

22. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Unlisted convertible bonds in USA, at fair value	**797**	5,512
Analysed as:		
Non-current assets	**–**	5,512
Current assets	**797**	–
	797	5,512

23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Equity securities, at fair value		
Unlisted securities	**59,195**	30,804
At the beginning of the year	**30,804**	15,312
Addition (Note)	**35,078**	5,000
Change in fair value	**(13,087)**	16,392
Transfer	**6,400**	(5,564)
Disposal	**–**	(336)
At the end of the year	**59,195**	30,804
Analysed as:		
Non-current assets	**38,895**	30,804
Current assets	**20,300**	–
	59,195	30,804

Note:

On 27 March 2019, the Group completed the investment in a company which is principally engaged in operating E-sports venues. The purchase consideration was RMB21,078,000 in aggregation, which included cash consideration of RMB13,000,000 and share consideration with 1,851,568 new ordinary shares at a fair value of HK$5.1 per share, being the closing price per the Company's ordinary share as quoted on The Stock Exchange of Hong Kong Limited on 27 March 2019. The fair value of the consideration of 1,851,568 new ordinary shares is RMB8,078,000. Since the Group cannot control or exert significant influence to the invested company, management designated this investment as financial assets at fair value through other comprehensive income.

On 10 June 2019, the Group completed the investments as a limited partner in a limited partnership which is principally engaged in investment activities. The purchase consideration was settled at a total cash consideration of RMB10,000,000.

On 3 September 2019, the Group completed an investment in a company, which is principally engaged in the game business. The purchase consideration was settled at a total cash consideration of RMB4,000,000.

No single investment that was designated as equity investments at fair value through other comprehensive income in our investment portfolio is a significant investment as none of such investments has a carrying amount that accounts for more than 5.0% of our total assets as at 31 December 2019 and 2018.

24. TRADE RECEIVABLES

Credit sales are mainly derived from the Game Business in which the Group contracts with various third party platforms to publish games. The normal credit term of Game Business granted by the Group was from 30 to 180 days from respective transaction dates.

	2019 RMB'000	2018 RMB'000
Trade receivables	**19,280**	40,801
Related parties	**–**	1,658
	19,280	42,459
Provision for loss allowance	**(14,335)**	(19,359)
Carrying amount	**4,945**	23,100

The aging analysis of trade receivables, based on recognition date of the trade receivables is as follows:

	2019 RMB'000	2018 RMB'000
0–30 days	**2,220**	8,449
31–60 days	**1,166**	4,456
61–90 days	**395**	4,680
91–180 days	**680**	5,760
181–365 days	**156**	2,086
Over 1 year	**14,663**	17,028
	19,280	42,459

24. TRADE RECEIVABLES (Continued)

Reconciliation of loss allowance for trade receivables:

	2019 RMB'000	2018 RMB'000
At 1 January	**19,359**	16,403
Increase in loss allowance for the year	**326**	4,394
Amounts written off	**(3,519)**	(930)
Reversal	**(1,087)**	(542)
Disposal of a subsidiary	**(753)**	–
Exchange differences	**9**	34
At 31 December	**14,335**	19,359

The creation and reversal of allowance for impaired receivables have been included in "Impairment of financial assets measured at amortised cost" in the consolidated statement of profit and loss and comprehensive loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The Group applies the simplified approach under IFRS 9 to provide for expected credit losses using the lifetime expected loss provision 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. The expected credit losses also incorporate forward looking information.

	Current	Less than 1 year (include 1 year) past due	More than 1 year past due	Total
At 31 December 2019				
Expected loss rate	**5.00%**	**12.97%**	**96.07%**	
Gross carrying amount (RMB'000)	**3,761**	**918**	**14,601**	**19,280**
Loss allowance provision (RMB'000)	**188**	**119**	**14,028**	**14,335**
At 31 December 2018				
Expected loss rate	5.00%	13.00%	99.68%	
Gross carrying amount (RMB'000)	11,077	14,393	16,989	42,459
Loss allowance provision (RMB'000)	554	1,871	16,934	19,359

25. LOAN RECEIVABLES

	2019 RMB'000	2018 RMB'000
Guaranteed loans	**235,196**	6,454
Collateralised loans	**25,898**	40,058
	261,094	46,512
Provision for loss allowance	**(105,700)**	–
Carrying amount	**155,394**	46,512

The loan terms granted to customers are within one year, and the loan receivables are all dominated in RMB.

Analysis of loan receivables by overdue and impaired states are as follows:

	2019 RMB'000	2018 RMB'000
Neither past due nor impaired	**126,204**	41,646
Overdue but not impaired	**26,901**	4,866
Individually impaired	**107,989**	–
	261,094	46,512
Less: Allowance for impairment losses	**(105,700)**	–
Net balance	**155,394**	46,512

Reconciliation of loss allowance for loan receivables:

	2019 RMB'000	2018 RMB'000
At 1 January	**–**	3,510
Charge/(reversal) for the year:		
— Individually assessed	**105,700**	–
— Collectively assessed	**–**	(3,510)
At 31 December	**105,700**	–

Loans that are overdue but not impaired are loans less than 90 days past due and guaranteed by other enterprises.

26. PREPAYMENTS AND OTHER RECEIVABLES

	Notes	2019 RMB'000	2018 RMB'000
Included in non-current assets			
Rental and other deposits		**670**	2,386
Others		**75**	381
		745	2,767
Included in current assets			
Receivable from disposal of investment in an associate	(i)	**–**	4,375
Receivable from disposal of investment in a subsidiary	(ii)	**–**	–
Receivable from Internet Micro-credit business partners		**6,413**	116
Rental and other deposits		**2,470**	2,070
Prepaid professional fee		**1,188**	330
Prepaid servers fee		**300**	1,780
Prepaid advertising costs		**171**	3,319
Others		**3,618**	5,628
		14,160	17,618

Notes:

(i) As at 31 December 2018, the receivable from disposal of an investment in an associate was RMB43,750,000 and the Group provided provision for impairment loss RMB39,375,000. The remaining amount recovered during 2019.

(ii) As at 31 December 2019, included in the allowance for impairment loss is RMB33,203,000 provided for the proceeds receivable from the buyers of subsidiaries disposed in 2019. The proceeds receivable was due on or before 6 March 2020. As at 6 March 2020, the proceeds receivable remained unpaid and the buyers indicated to the Company of their unwillingness to fulfil their payment obligations. Accordingly, the unpaid proceeds receivable as at 31 December 2019 was fully impaired and the allowance of RMB33,203,000 was recognised in the current report period.

27. DERIVATIVE FINANCIAL INSTRUMENT

	2019 RMB'000	2018 RMB'000
Profit guarantee of the Beijing Xigua	**80,200**	–

Pursuant to the investment agreement, the Vendor, the KongZhong Group and Beijing Xigua jointly and severally guaranteed and undertook to the investor that the net profit after tax of Beijing Xigua recognized by the auditor's report issued by the audit firm mutually confirmed and agreed by the KongZhong Group and the Company, excluding the non-recurring profits and losses in Beijing Xigua's consolidated financial statements and the service fees to be incurred by Beijing Xigua and its subsidiaries and the Company and its subsidiaries (the "Actual Net Profits"), which were to be jointly confirmed by the Company and the KongZhong Group, for the period from 1 June 2019 to 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021 (the "Guarantee Periods") would not be less than RMB43,000,000, RMB52,000,000 and RMB62,000,000 ("Thresholds", and each of them a "Threshold") respectively (the "Profit Guarantee"). Completion of the Transaction took place on 26 June 2019, pursuant to which the Company paid a cash consideration of RMB20,000,000 to subscribe the new registered capital of Beijing Xigua allotted and issued a total of 22,268,908 Consideration Shares to KongZhong at the issue price of HK$6.876 per consideration share, credited as fully paid, pursuant to the investment agreement. All the consideration shares are held under an escrow account designated by KongZhong and will be released to KongZhong in batches subject to the Profit Guarantee for the respective Guarantee Period being fulfilled.

In the event that the Actual Net Profits in any financial year stated above is lower than the relevant Threshold, the Vendor and Beijing Xigua on a joint and several basis, shall, within thirty (30) business days after the audited financial statements for such financial year is made available, compensate for the shortfall by one of the following two options to be elected by the Company:

Option A: Compensated with cash and adjustments on Consideration Shares.

Option B: Compensated in the form of cash, determined by the shortfall of the Thresholds and the Actual Net Profits subject to a cap of RMB150,153,000, being the amount of the Consideration.

In the event that the Beijing Xigua fails to meet any of the Thresholds in any year(s) during the Guarantee Period, but the Actual Net Profits for the whole Guarantee Period in aggregate amount to or exceed RMB157,000,000, the investor may at its discretion grant certain shares to the Vendor and/or entities designated by the Vendor as a reward based on the number of unreleased Consideration Shares and/or the amount of cash compensated to the Investor during the Guarantee Period.

The Actual Net Profits of Beijing Xigua for the period from 1 June 2019 to 31 December 2019 was fall short of the Threshold of RMB43,000,000 and the Profit Guarantee for the period from 1 June 2019 to 31 December 2019 as contemplated under the investment agreement was not be fulfilled.

The fair value of profit guarantee of Beijing Xigua was RMB15,069,000 and RMB80,200,000 at date of acquisition and 31 December 2019 based on valuation performed by Flagship Appraisals and Consulting Limited, an independent qualified professional valuer, by using income approach.

28. CASH AND CASH EQUIVALENTS, SHORT-TERM DEPOSITS AND RESTRICTED CASH

(a) Cash and cash equivalents

	2019 RMB'000	2018 RMB'000
Cash at bank and on hand	**315,285**	751,356
Cash at other financial institutions	**2,674**	5,662
	317,959	757,018

(b) Short-term deposits

As at 31 December 2019, the short-term deposits amounted to RMB68,862,000 (2018 :RMB41,534,000) were bank deposits with original maturity of three months and redeemable on maturity. The short-term deposit is denominated in RMB, the weighted average effective interest rate was 3.12% (2018: 3.50%).

(c) Restricted cash

As at 31 December 2019, RMB953,000 (2018: RMB929,000) were restricted deposits held at bank as collateral for credit card.

29. TRADE PAYABLES

Trade payables primarily related to the purchase of services for server custody, content costs, agency fees and revenue to be shared and to be payable to game developers in Game Business.

The aging analysis of trade payables, based on recognition date of trade payables, is as follows:

	2019 RMB'000	2018 RMB'000
0–30 days	**2,672**	3,485
31–60 days	**231**	2,809
61–90 days	**125**	2,885
91–180 days	**364**	11,571
181–365 days	**94**	2,169
Over 1 year	**4,090**	6,234
	7,576	29,153

30. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Deposits received in Internet Micro-credit Business	**25,094**	45,470
Amounts due to related parties (Note 43)	**20,897**	191
Professional service fees payable	**7,167**	5,088
Staff costs and welfare accruals	**6,879**	25,011
Payables related to VR Games Business	**5,950**	–
Advertising expenses accruals	**1,137**	5,851
Services fee and others received on behalf of Internet Micro-credit Business partners	**–**	4,277
Others	**9,004**	11,662
	76,128	97,550

31. CONTRACT LIABILITIES

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000	As at 1 January 2018 RMB'000
Contract liabilities	**9,275**	6,544	7,296
Contract receivables (included in trade receivables)	**4,945**	9,382	19,033

	2019 RMB'000	2018 RMB'000
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:		
— 2019	**N/A**	6,422
— 2020	**9,275**	122
	9,275	6,544

31. CONTRACT LIABILITIES (Continued)

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	**6,692**	6,422
Significant changes in contract liabilities during the year:		
Increase due to operations in the year	**9,275**	6,544
Increase due to business combinations (Note 38(a))	**1,873**	–
Transfer of contract liabilities to revenue	**(6,422)**	(7,026)

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

32. LEASE LIABILITIES

	Lease payments 2019 RMB'000	Present value of lease payments 2019 RMB'000
Within one year	**29,008**	**28,156**
Over one year but within five years	**24,633**	**22,498**
	53,641	**50,654**
Less: Future finance charge	**(2,987)**	
Present value of lease liabilities	**50,654**	
Less: Amount due for settlement within 12 months (shown under current liabilities)		**(28,156)**
Amount due for settlement after 12 months		**22,498**

At 31 December 2019, the average effective borrowing rate was 4.75% (2018: nil) p.a.. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

33. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group.

	Tax losses	Intangible Assets in Business Combination	Fair value change of Equity investments at fair value through other comprehensive income	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	–	(32,158)	(19)	(32,177)
Charge to profit or loss	–	32,158	–	32,158
Credit to other comprehensive income	–	–	(440)	(440)
At 31 December 2018 and 1 January 2019	**–**	**–**	**(459)**	**(459)**
Charge to profit or loss	**4,381**	**8,887**	**–**	**13,268**
Acquisition of a subsidiary (note 38(a))	**–**	**(8,887)**	**–**	**(8,887)**
Charge to other comprehensive income	**–**	**–**	**343**	**343**
At 31 December 2019	**4,381**	**–**	**(116)**	**4,265**

The following is the analysis of the deferred tax balances (after offset) for consolidated statement of financial position purposes:

	2019	2018
	RMB'000	RMB'000
Deferred tax assets	**4,381**	–
Deferred tax liabilities	**(116)**	(459)
	4,265	(459)

As at 31 December 2019, deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. Based on management's assessment, the Group's losses amounting to RMB341,063,000 (2018: RMB296,784,000) is not considered probable to be utilised, therefore the Group did not recognise relevant deferred income tax assets amounting to RMB53,569,000 (2018: RMB53,171,000) for these losses. These tax losses will expire from year 2020 to 2029.

34. SHARE CAPITAL

	Number of ordinary shares '000	Amount USD'000
Authorised:		
Ordinary shares of USD0.0001 each		
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	500,000	50

	Notes	Number of ordinary shares '000	Amount RMB'000
Issued and fully paid:			
Ordinary shares of USD0.0001 each			
As at 1 January 2018		137,406,543	87
Employee share-based compensation scheme:			
Shares issued upon exercise of employee share options under Pre-IPO Share Option Scheme (Note 37(a))	*(c)*	111,494	–
Shares purchased for Restricted Share Units Scheme		(3,594,600)	–
Vesting and allotting of shares of Restricted Share Units Scheme		1,000,000	–
Repurchase and cancellation of shares	*(d)*	(1,263,500)	(1)
At 31 December 2018 and 1 January 2019		133,659,937	86
Acquisition of a subsidiary	*(a)*	22,268,908	16
Issue of ordinary shares as consideration for equity investments at fair value through other comprehensive income	*(b)*	1,851,568	1
Employee share-based compensation scheme:			
Shares issued upon exercise of employee share options under Pre-IPO Share Option Scheme (Note 37(a))	*(c)*	14,125	–
Repurchase and cancellation of shares	*(d)*	(1,790,300)	(1)
At 31 December 2019		**156,004,238**	**102**

Notes:

(a) During the year, an aggregate of 22,268,908 new shares were allotted and issued as consideration for business combinations (Note 38) (2018: Nil). The aggregate consideration was RMB96,007,000 (2018: Nil).

(b) During the year, an aggregate of 1,851,568 new shares were allotted and issued as consideration for equity investments in at fair value through other comprehensive income (2018: Nil). The aggregate consideration was RMB8,078,000 (2018: Nil).

(c) During the year, employee share options granted under the Pre-IPO Share Option Scheme were exercised to subscribe for 14,125 shares (2018: 111,494 shares) with exercise price of US$0.0001.

(d) During the year, the Company repurchased an aggregate of 1,790,300 (2018: 1,263,500) ordinary shares at an average price of HK$3.22 per share (2018: HK$6.97) for an aggregate consideration of HK$5,769,000, equivalent to RMB4,943,000 (2018: HK$8,809,000, equivalent to RMB7,728,000) under the share buy-bank mandates approved in the annual general meeting.

(e) Under the Restricted Share Units Scheme, the Company bought back but not vest 3,375,000 share (2018: 3,375,000).

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 RMB'000	2018 RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**200,120**	503,703
Amounts due from subsidiaries	**407,366**	542,855
	607,486	1,046,558
Current assets		
Amounts due from subsidiaries	**26,283**	59,205
Prepayments and other receivables	**355**	319
Short-term deposits	**19,134**	–
Cash and cash equivalents	**10,908**	8,647
	56,680	68,171
Total assets	**664,166**	1,114,729
EQUITY AND LIABILITIES		
Equity		
Share capital	**102**	86
Reserves	**663,861**	1,113,742
Total equity	**663,963**	1,113,828
Liabilities		
Current liabilities		
Other payables and accruals	**203**	901
Total liabilities	**203**	901
Total equity and liabilities	**664,166**	1,114,729
Net current assets	**56,477**	67,270
Total assets less current liabilities	**663,963**	1,113,828

36. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity.

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group, it is required to appropriate 10% of the annual net profits, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital of the companies incorporated in the PRC, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be capitalised as capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve funds. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not be made.

(b) Company

	Share premium RMB'000	Shares held for Restricted Share Units Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	2,074,087	(9,584)	(119,970)	(812,359)	1,132,174
Loss for the year	–	–	–	(11,614)	(11,614)
Shares purchases for RSU Scheme	–	(30,839)	4,633	–	(26,206)
Vesting and allotting of shares of RSU Scheme	–	11,523	(7,642)	(3,881)	–
Repurchase and cancellation of shares	(7,727)	–	–	–	(7,727)
Current translation differences	–	–	27,115	–	27,115
At 31 December 2018 and 1 January 2019	**2,066,360**	**(28,900)**	**(95,864)**	**(827,854)**	**1,113,742**
Loss for the year	**–**	**–**	**–**	**(552,585)**	**(552,585)**
Issue of ordinary shares as consideration for a business combination	**95,991**	**–**	**–**	**–**	**95,991**
Issue of ordinary shares as consideration for equity investment at fair value through other comprehensive income	**8,077**	**–**	**–**	**–**	**8,077**
Repurchase and cancellation of shares	**(4,942)**	**–**	**–**	**–**	**(4,942)**
Share-based payments	**–**	**–**	**6,076**	**–**	**6,076**
Current translation differences	**–**	**–**	**(2,498)**	**–**	**(2,498)**
At 31 December 2019	**2,165,486**	**(28,900)**	**(92,286)**	**(1,380,439)**	**663,861**

37. SHARE-BASED PAYMENTS TRANSACTIONS

(a) Pre-IPO Share Option Scheme

On 31 October 2012, the Board of Directors of the Company approved the establishment of a Pre-IPO Share Option Scheme with the objective to recognise and reward the contribution of eligible directors, employees and other persons to the growth and development of the Group.

The exercise price of the granted options shall be the par value of the ordinary shares as amended as a result of any sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

The options are conditionally vested on the employee completing a certain period of service, which is mutually agreed by the employees and the Company. In addition, the options are only exercisable after the listing of the Company's shares on any internationally recognised stock exchange of the Company ("performance condition") and the grantees remain employed by the Group.

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

On 1 January, 1 July, and 1 September 2013, 5,385,611, 898,800 and 156,500 share options were granted under the scheme, respectively.

Movements of the number of share options outstanding and their related weighted average exercise prices are as follows:

		Pre-IPO Share Option Scheme Number of Share Options	
	Exercise Price	**2019**	2018
At beginning of year		**466,495**	577,989
Exercised	US$0.0001	**(14,125)**	(111,494)
At end of year		**452,370**	466,495

As a result of the options exercised during the year, 14,125 ordinary shares were issued by the Company (Note 34). The weighted average price of the shares immediately before the dates on which the options were exercised was HK$6.22 (equivalent to RMB5.48) per share.

37. SHARE-BASED PAYMENTS TRANSACTIONS (Continued)

(b) Post-IPO Share Option Scheme

On 1 September 2013, the Board of Directors of the Company approved the establishment of a Post-IPO Share Option Scheme with the objective to reward eligible directors, employees and other persons for their past contribution to the success of the Group, and to provide incentives to them to further contribute to the Group.

The exercise price of the granted options represents the highest of (i) the closing price per share as stated in the Main Board of The Stock Exchange of Hong Kong Limited ' s daily quotations sheet on the offer dates; (ii) the average closing prices per share as stated in the Main Board of The Stock Exchange of Hong Kong Limited's daily quotations sheets for the 5 business days immediately preceding the offer dates; and (iii) the nominal value of a share.

The options are conditionally vested upon the employee completing 2 years of service from the offer date, which is mutually agreed by the employees and the Company.

The Group has no legal or constructive obligations to repurchase or settle the options in cash.

On 2 January and 10 June 2015, 1,908,000 and 3,845,000 share options were granted under the scheme, respectively.

For those share options granted on 10 June 2015, the Group and the grantees agreed they are subject to certain non-market performance vesting conditions which are related to the financial performance of the Group during the vesting period.

Movements of the number of share options outstanding and their related weighted average exercise prices are as follows:

	Post-IPO Share Option Scheme Year ended 31 December			
	2019		2018	
	Average Exercise Price	**Number of Share Options**	Average Exercise Price	Number of Share Options
At beginning of year		**1,408,000**		1,563,000
Exercised	**–**	**–**	–	–
Forfeited	**HK$14.61**	**(1,408,000)**	HK$24.29	(155,000)
At end of year		**–**		1,408,000

37. SHARE-BASED PAYMENTS TRANSACTIONS (Continued)

(c) Restricted Share Units Scheme

On 13 September 2013, the Board of Directors of the Company approved to adopt a Restricted Share Units Scheme. During the years ended 31 December 2016, 2018 and 2019, the Company granted 4,260,000, 2,500,000 and 2,500,000 restricted share units to certain directors and employees of the Group (collectively, the "Grantees") pursuant to the Restricted Share Unit Scheme at the grant date fair value of HK$8.88 (equivalent to RMB7.64), HK$10.10 (equivalent to RMB8.27) and HK$6.30 (equivalent to RMB5.43) respectively for each restricted share unit. The fair value of restricted share units granted to employees is measured with reference to the closing price of the ordinary share of the Company at the grant date and recognised as staff costs with a corresponding increase in the capital reserve within equity.

As at 31 December 2019, the restricted share units granted in 2016 have all been vested. The unvested restricted share unit granted in 2018 have been cancelled. The vesting schedule of the restricted share units newly granted during the year ended 31 December 2019 is as follows:

Percentage of the restricted share units scheme	Date of vesting of the relevant percentage of the restricted share units
20%	1 July 2019
20%	1 January 2020
20%	1 July 2020
20%	1 January 2021
20%	1 July 2021

During the year ended 31 December 2019, the Company recorded share based compensation of RMB6,076,000 (2018: RMB4,633,000) related to Restricted Share Units Scheme.

Upon vesting and transfer to the Grantees, the related costs of the shares are credited to Shares held for Restricted Share Units Scheme, and the related fair value of the shares are debited to share-based compensation reserve. The difference between the cost and the fair value of the shares is credited to share premium if the fair value is higher than the cost or debited against accumulated losses if the fair value is less than the cost.

38. BUSINESS COMBINATION AND DISPOSAL OF SUBSIDIARIES

(a) Acquisition of a subsidiary

On 26 June 2019, the Group completed the acquisition of 69.84% equity interest in Beijing Xigua, which is principally engaged in offering virtual reality game in physical stores that are equipped with space positioning technology and virtual reality devices.

38. BUSINESS COMBINATION AND DISPOSAL OF SUBSIDIARIES (Continued)

(a) Acquisition of a subsidiary (Continued)

The fair value of the identifiable assets and liabilities of Beijing Xigua acquired as at its date of acquisition is as follows:

	Notes	RMB'000
Net assets acquired:		
Property and equipment		16,580
Intangible assets		64,827
Right-of-use assets		38,143
Trade receivables	*(i)*	6,398
Prepayments and other receivables	*(i)*	23,673
Cash and cash equivalents		4,415
Other payables and accruals		(37,299)
Lease liabilities		(36,827)
Contract liabilities		(1,873)
Deferred tax liabilities		(8,887)
Net identifiable assets acquired		69,150
Less: non-controlling interests	*(ii)*	(20,856)
Add: goodwill		52,644
		100,938
Satisfied by:		
Cash paid		20,000
Issuance of ordinary shares	*(iii)*	96,007
Less: Derivative financial instrument (note 27)		(15,069)
		100,938
Net cash outflow arising on acquisition:		
Cash consideration paid		20,000
Cash and cash equivalents acquired		(4,415)
		15,585

38. BUSINESS COMBINATION AND DISPOSAL OF SUBSIDIARIES (Continued)

(a) Acquisition of a subsidiary (Continued)

Notes

(i) The fair value of the trade and other receivables acquired is RMB30,071,000.

(ii) The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Beijing Xigua, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

(iii) As at 26 June 2019, the Company issued 22,268,908 new ordinary shares at a fair value of HK$4.9 per share, being the closing price per the Company' s ordinary share as quoted on The Stock Exchange of Hong Kong Limited on 26 June 2019. The fair value of the consideration of 22,268,908 new ordinary shares is RMB96,007,000.

Revenue and profit contribution

The acquired business contributed revenues of RMB25,996,000 and net loss of RMB228,712,000 to the Group for the period from 1 July to 31 December 2019.

If the acquisition had occurred on 1 January 2019, consolidated pro-forma revenue and net loss for the year ended 31 December 2019 would have been RMB37,087,000 and RMB242,954,000 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

— differences in the accounting policies between the Group and the subsidiary, and

— the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 January 2019, together with the consequential tax effects.

The goodwill of RMB52,644,000 arising from the acquisition is attributable to the workforce and the expected high profitability of the acquired business. None of the goodwill recognised is expected to be deductible for tax purposes.

As disclosed in Note 18 of these consolidated financial statements, the operating adjustment to Beijing Xigua due to the impact of deterioration in Beijing Xigua's business may lead to a significant decrease in future projecting or estimating cash flow to be generated from the self-operated and franchised stores. Accordingly, the board of directors of the Company concluded that the whole carrying amounts of the identifiable intangible assets and goodwill associated with Beijing Xigua' s operation had been fully impaired.

38. BUSINESS COMBINATION AND DISPOSAL OF SUBSIDIARIES (Continued)

(b) Disposal of subsidiaries

As referred to in note 12 to the consolidated financial statements, on 31 July 2019 the Group discontinued its fintech business at the time of the disposal of its subsidiaries.

Net assets at the date of disposal were as follows:

	RMB'000
Property and equipment	2,308
Intangible assets	2,394
Right-of-use assets	2,719
Trade receivables	18,009
Prepayments and other receivables	66,414
Cash and cash equivalents	16,064
Trade payables	(7,305)
Other payables and accruals	(15,155)
Lease liabilities	(2,385)
Income tax liabilities	(570)
Net assets disposed of	82,493
Non-controlling interests	(38,319)
Gain on disposal of subsidiaries (note 12)	3,259
Total consideration	47,433
Total Cash consideration	
— satisfied by cash at date of disposal	14,230
— satisfied by cash on payment schedule	33,203
	47,433
Net cash inflow arising on disposal:	
Cash consideration received	14,230
Cash and cash equivalents disposed of	(16,064)
	(1,834)

39. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table shows the Group's changes in liabilities arising from financing activities during the year[redacted]

At 1 January 2018 and 31 December 2018	[redacted]
Effect of changes in accounting policies	
At 1 January 2019	
Changes in cash flows	
Non-cash changes	
— Additions	
— Additions of a subsidiary	
— Disposal	
— Disposal of a subsidiary	
— Interest charged	
At 31 December 2019	

40. CONTINGENT LIABILITIES

As at 31 December 2019, the Group and the Company did not have any significant contingent liabilities (2[redacted]

41. CAPITAL COMMITMENTS

As at 31 December 2019, the amount of capital expenditures contracted but not provided is RM[redacted] RMB1,250,000) which was related to investment arrangements.

42. LEASE COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating le[redacted] follows:

	[redacted]

43. RELATED PARTY TRANSACTIONS

(a) Significant transactions with related parties

	2019 RMB'000	2018 RMB'000
Revenue derived from the Group's providing VR game service to related parties and provision of services to related parties		
Entities controlled by a shareholder of the Company	**197**	–
Content cost to related parties who provided publishing services to the Group for game operation		
Associates	**664**	1,661

(b) Year end balances arising from sales and purchase of services

The receivables due from related parties mainly arose from the revenue sharing generated from games operated and published by related parties.

		2019 RMB'000	2018 RMB'000
(i)	Receivable from related parties		
	Associates	**–**	1,658
	Less: Allowance for impairment	**–**	(1,658)
		–	–
(ii)	Other payables to related parties		
	Shanghai Dacheng Network Technology Co., Ltd. (上海大承網路技術有限公司)*	**17,875**	–
	Others	**3,022**	191
		20,897	191

* Shanghai Dacheng Network Technology Co., Ltd. (上海大承網路技術有限公司) was controlled by a shareholder of the Company.

Balances with related parties were all unsecured, interest-free and had no fixed repayment terms.

(c) Key management personnel compensations

The compensations paid or payable to key management personnel (including Chief Executive Officer and other senior executives) for employee services are shown below:

	2019 RMB'000	2018 RMB'000
Fees, wages and salaries	**6,811**	6,685
Bonuses	**490**	2,131
Pension costs — defined contribution plans	**189**	169
Social security costs, housing benefits and other employee benefits	**375**	310
Share-based compensation	**2,257**	2,769
	10,122	12,064

44. MATERIAL EVENTS

(i) An alleged lawsuit relating to right of publicity

On 22 April 2020, the Company announced that there were certain recent media reports reporting that Ms. Selena Gomez, an American singer, songwriter, actress, and television producer ("Ms. Gomez"), has filed a lawsuit (the "Lawsuit") against Mutant Box and Guangzhou Feidong Software Technology Co., Ltd. ("GZ Feidong"), both being subsidiaries of the Company, alleging that Mutant Box and GZ Feidong have portrayed Ms. Gomez's character on, and profited off her likeness for, a mobile fashion game, "Clothes Forever" without the consent of Ms. Gomez.

As at the date of this report, upon reasonable enquiry being made with the relevant personnel of Mutant Box and GZ Feidong, neither Mutant Box nor GZ Feidong had received any official documents and/or notice relating to the alleged Lawsuit.

Up to the date of these consolidated financial statements, neither Mutant Box nor GZ Feidong had received any official notices or orders relating to the alleged lawsuit, the progress of the matter is uncertain in the future.

(ii) Frozen Shares of Certain PRC Operational Entities

Pursuant to the requirements of a civil paper (Document 2019 Yue 0106 Caibao 43) issued by a court in the PRC (the "Court"), legal shares of 23.75% (representing paid up capital of RMB2,375,000), 23.75% (representing paid up capital of RMB2,375,000) and 20.94% (representing paid up capital of RMB2,094,000) of Feiyin, Weidong and Jieyou, respectively, which are held by Mr. Wang Dongfeng (the "Mr. Wong") (collective defined as the "Frozen Shares") have been frozen by the Court due to lawsuits undertaken against Mr. Wang as a defendant. The frozen period is from 26 February 2019 to 25 February 2021. During the frozen period, the Frozen Shares cannot be transferred to other parties without the agreement of the Court, and the Frozen Shares might also be demanded by the Court to be disposed in order to settle any damages, as determined by the Court, arising from the lawsuits.

The directors of the Company, based on the advice of its legal advisor, consider that the Contractual Arrangements are in compliance with relevant PRC laws and regulations and are legally binding and enforceable. There are no significant change for the Contractual Arrangements.

45. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 August 2020.

DEFINITIONS

"Annual General Meeting"	the annual general meeting of the Company proposed to be held on Wednesday, 30 September 2020
"ARPPU"	average revenue per paying users
"Articles"	the articles of association of the Company, as amended from time to time
"Audit and Compliance Committee"	the audit and compliance committee of the Board
"Beijing Xigua"	Beijing Xigua Huyu Technology Co., Ltd.* (北京西瓜互娛科技有限責任公司), a company established with limited liability in the PRC
"Investment Agreement"	means an investment agreement relating to the acquisition of 69.84% of the equity interest in Beijing Xigua, dated 24 April 2019. For details, please refer to the Group's announcement dated 24 April 2019.
"Beijing Yidong"	北京易動無限網絡科技有限公司 (Beijing Yidong Wuxian Network Technology Co., Ltd*), a company established in the PRC with limited liability and controlled by KongZhong Corporation pursuant to contractual arrangements and is a member of the KongZhong Group
"Beijing Zhongding"	Beijing Zhongding Shenqi Cultural Communication Co., Ltd.* (北京中鼎神起文化傳播有限公司), a limited liability company established in the PRC
"Board" or "Board of Directors"	the board of Directors of the Company
"BVI"	the British Virgin Islands
"Cayman Islands"	the Cayman Islands
"China" or "PRC"	the People's Republic of China and, except where the context otherwise requires and only for the purpose of this annual report, excluding Hong Kong, Macau and Taiwan
"Company" or "Forgame"	Forgame Holdings Limited (雲遊控股有限公司), an exempted company incorporated in the Cayman Islands on 26 July 2011 with limited liability, whose Shares became listed on the Main Board of the Stock Exchange on the Listing Date
"Connected Person(s)"	has the same meaning ascribed thereto in the Listing Rules
"Connected Transaction(s)"	has the same meaning ascribed thereto in the Listing Rules
"Contractual Arrangements"	the Feidong Contractual Arrangements and the JLC Contractual Arrangements
"Corporate Governance Code" or "CG Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules

DEFINITIONS

"Corporate Governance Committee"	the corporate governance committee formed by the Board on 22 May 2020, details of which are set out in the announcement of the Company dated 28 May 2020
"Decoration Services Agreement"	the decoration services agreement entered into between Beijing Xigua and Beijing Zhongding on 20 May 2019
"Director(s)"	director(s) of the Company
"Epidemic"	the novel coronavirus disease (COVID-19)
"Executive Director(s)"	executive Director(s)
"Family Trusts"	Wang Trust, Keith Huang Trust, Hao Dong Trust and Zhuangjg Trust, collectively
"Feidong"	Guangzhou Feidong Software Technology Co., Ltd. (also referred to as Guangzhou Feidong Software Technology Company Limited)* (廣州菲動軟件科技有限公司), an indirect, wholly-owned subsidiary of the Company, established under the laws of the PRC on 13 June 2012
"Feidong Contractual Arrangements"	a series of contractual arrangements entered into between Feidong, the Feidong PRC Operational Entities and their respective shareholders
"Feidong PRC Operational Entities"	Feiyin, Weidong and Jieyou, whose financial results have been consolidated and accounted for as subsidiaries of the Company by virtue of the Feidong Contractual Arrangements, collectively
"Feiyin"	Guangzhou Feiyin Information Technology Co., Ltd. (also referred to as Guangzhou Feiyin Information Technology Company Limited)*(廣州菲音信息科技有限公司), a limited liability company established under the laws of the PRC on 12 April 2004
"Financial Statements"	audited consolidated financial statements of the Group for the year ended 31 December 2019
"FITE Regulations"	Regulations for the Administration of Foreign-invested Telecommunications Enterprises promulgated by the State Council on 11 December 2001 and subsequently amended on 10 September 2008 and 6 February 2016, respectively
"Foga Development"	Foga Development Co. Ltd., a company incorporated in the BVI on 25 July 2011
"Foga Group"	Foga Group Ltd., a company incorporated in the BVI on 25 July 2011
"Foga Holdings"	Foga Holdings Ltd., a company incorporated in the BVI on 25 July 2011, which was established by Mr. Liao and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the Hao Dong Trust

DEFINITIONS

"Foga Internet Development"	Foga Internet Development Ltd., a company incorporated in the BVI on 25 July 2011, which was established and wholly-owned by Mr. Yang and is one of the Holding Companies
"Foga Networks"	Foga Networks Development Ltd., a company incorporated in the BVI on 25 July 2011, which was established by Mr. Huang and is one of the Holding Companies. The entire issued share capital is held by Managecorp Limited acting as the trustee of the Keith Huang Trust
"Foga Tech"	Foga Tech Limited, a limited company incorporated under the laws of Hong Kong on 9 August 2011 and a wholly-owned subsidiary of the Company
"Former Independent Non-executive Director(s)"	Mr. HOW Sze Ming, Mr. ZHAO Cong Richard and Mr. WAN Joseph Jason, each of whom tendered their respective resignation as an Independent Non-executive Director on 29 April 2020 which took effect on 30 April 2020
"Founder(s)"	Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang, who are the founder(s) of the Company, collectively
"Group" or "we" or "us"	the Company and its subsidiaries, collectively
"Hao Dong Trust"	a discretionary trust set up by Mr. Liao of which Managecorp Limited acts as the trustee and the discretionary beneficiary of which is Mr. Liao
"Holding Companies"	Foga Group, Foga Networks, Foga Holdings, Foga Internet Development and Foga Development, which are the immediate holding companies of the Company established by Mr. Wang, Mr. Huang, Mr. Liao, Mr. Yang and Mr. Zhuang respectively, collectively
"Hong Kong" or "HK"	The Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"ICP Licence"	internet content provision licence, a value-added telecommunications business operation licence issued by the relevant PRC government authorities with a service scope of information services
"IFRSs"	financial reporting standards and interpretations approved by the International Accounting Standards Board, and includes all International Accounting Standards and interpretations issued under the former International Accounting Standards Committee from time to time
"Independent Non-executive Director(s)"	independent non-executive Director(s)
"IP"	intellectual property
"IPO"	initial public offering of the Shares on the Stock Exchange

DEFINITIONS

"IT"	information technology
"Jianlicai Group"	Jlc Inc. and its subsidiaries
"Jieyou"	Guangzhou Jieyou Software Co., Ltd. (also referred to as Guangzhou Jieyou Software Company Limited)* (廣州捷遊軟件有限公司), a limited liability company established under the laws of the PRC on 7 June 2012
"Jinweilai"	Beijing Jinweilai Financial Information Service Co., Ltd. (also referred to as Beijing Jinweilai Financial Information Service Company Limited)* (北京金未來金融信息服務有限公司), a limited liability company established in the PRC, the entire equity interest of which is held by the JLC Registered Shareholder
"JLC (Cayman)"	Jlc Inc., an exempted company duly incorporated with limited liability and validly existing under the laws of the Cayman Islands
"JLC (HK)"	Jianlc (HK) Limited, a limited company incorporated in Hong Kong, the entire equity interest of which is held by JLC (Cayman)
"JLC (WFOE)"	New Goround Network Technology (Tianjin) Co., Ltd.* (新谷原信息技術（天津）有限公司), a limited liability company established in the PRC, the entire equity interest of which is held by the JLC (HK)
"JLC Contractual Arrangements"	a series of contractual arrangements entered into between JLC (WFOE), the JLC VIE Controlled Entities and their respective shareholders
"JLC Disposal"	the disposal of 54.54% of the entire issued share capital of JLC Inc.
"JLC PRC Equity Owners"	Mr. Guo Yong and Ms. Qiu Zengzhen, who beneficially owned as to 95% and 5%, respectively, of the equity interest of the JLC Registered Shareholder
"JLC PRC Operational Entities"	Jinweilai, Laijin and Weilaijin, whose financial results have been consolidated and accounted for as subsidiaries of the Company by virtue of the JLC Contractual Arrangements, collectively
"JLC Registered Shareholder"	Jinweilai (Guangzhou) Investment Consultancy Co., Ltd. (also referred to as Jinweilai (Guangzhou) Investment Consultancy Company Limited)* (金未來（廣州）投資諮詢有限公司), a limited liability company established in the PRC, the entire equity interest of which is held by the JLC PRC Equity Owners
"JLC VIE Controlled Entity(ies)"	the JLC PRC Operational Entities and the JLC Registered Shareholder
"Keith Huang Trust"	a discretionary trust set up by Mr. Huang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Huang and certain of his family members

DEFINITIONS

"KongZhong Corporation"	KongZhong Corporation, a company incorporated in the Cayman Islands with limited liability and is a substantial Shareholder
"KongZhong Group"	collectively, KongZhong Corporation, its subsidiaries and companies controlled by KongZhong Corporation
"KongZhong Youyi"	北京空中優宜信息技術有限公司 (Beijing KongZhong Youyi Information Technology Co., Ltd*), a company established in the PRC with limited liability and controlled by KongZhong Corporation pursuant to contractual arrangements and is a member of the KongZhong Group
"KongZhong Xintong"	空中信通信息技術(北京)有限公司 (KongZhong Xintong Information Technology (Beijing) C0., Ltd.), a company incorporated with limited liability under the laws of the PRC. KongZhong Xintong is owned as to 100% by KongZhong Corporation and a member of KongZhong Group
"Laijin"	Beijing Laijin Investment Fund Management Co,. Ltd. (also referred to as Beijing Laijin Investment Fund Management Company Limited)* (北京來金投資基金管理有限公司), a limited liability company established in the PRC, the entire equity interest of which is held by Jinweilai
"Latest Practicable Date"	28 August 2020 being the latest practicable date prior to the bulk printing and publication of this annual report
"Ledong"	Hongkong Ledong Tech Limited (香港樂動科技有限公司), a limited company incorporated under the laws of Hong Kong on 22 March 2012 and an indirect wholly-owned subsidiary of the Company
"Listing Date"	3 October 2013
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"LMDJ"	Tianjin LMDJ Internet Technology Co., Ltd. (天津聯盟電競互聯網科技有限公司)
"Loan Agreement"	the loan agreement dated 19 September 2019 entered into between Yunke, Beijing Xigua, Tianjin Wanke, Beijing Yidong and KongZhong Youyi
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
"Managecorp Limited"	Managecorp Limited, the trustee of each of the Family Trusts
"MIIT"	the Ministry of Industry and Information Technology of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules

DEFINITIONS

"MPUs"	monthly paying users
"Mr. Huang"	Mr. Huang Weibing (黃衛兵) (alias: Huang Kai (黃凱)), one of the Founders and the settlor of Keith Huang Trust
"Mr. Liao"	Mr. Liao Dong (廖東), one of the Founders and the settlor of Hao Dong Trust
"Mr. Wang"	Mr. Wang Dongfeng (汪東風), one of the Founders and the settlor of Wang Trust, who resigned as the chairman of the Board, an Executive Director, the chief executive officer of the Company, the Company's authorised representative under rule 3.05 of the Listing Rules and the chairman of the Nomination Committee on 30 September 2019
"Mr. Yang"	Mr. Yang Tao (楊韜), one of the Founders
"Mr. Zhuang"	Mr. Zhuang Jieguang (莊捷廣), one of the Founders and the settlor of Zhuangjg Trust
"Nomination Committee"	the nomination committee of the Board
"Non-executive Director(s)"	non-executive Director(s)
"Offer Date"	the date on which the Pre-IPO Share Option(s) are offered to an eligible participant as defined in the Pre-IPO Share Option Scheme
"Post-IPO Share Options"	options to be granted under the Post-IPO Share Option Scheme
"Post-IPO Share Option Scheme"	the post-IPO share option scheme conditionally adopted by the Company on 1 September 2013, for the benefit of the Directors, members of senior management, employees and other eligible participants defined in such scheme
"PRC Operational Entities"	the Feidong PRC Operational Entities and the JLC PRC Operational Entities
"Pre-IPO Share Options"	options granted under the Pre-IPO Share Option Scheme
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme approved and adopted by the Shareholders on 31 October 2012, which was amended and restated on 1 September 2013, for the benefit of the Directors, members of senior management, employees and other eligible participants defined in such scheme
"Prospectus"	the prospectus of the Company dated 19 September 2013 in relation to the IPO
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC

DEFINITIONS

"Restricted Share Unit Scheme" or "RSU Scheme"	the scheme conditionally approved and adopted by the Company on 1 September 2013 for the grant of RSUs to RSU participants following the completion of IPO
"RSU(s)"	restricted share unit(s) granted pursuant to the RSU Scheme
"R&D"	research and development
"SFO"	the Securities and Futures Ordinance of Hong Kong (chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shareholders"	shareholders of the Company
"Share Times"	Beijing Share Times Technology Co., Limited* (北京分享時代科技股份有限公司), a limited company established in the PRC
"Shares"	shares of USD0.0001 each in the share capital of the Company
"State Council"	State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategic Cooperation Framework Agreement"	the framework agreement dated 5 September 2019 entered into between the Company and KongZhong Corporation (after trading hours) in relation to the provision of services by the Group to KongZhong Group
"Substantial Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"Tianjin Wanke"	Tianjin Wanke Technology Co., Ltd.* (天津玩氪科技有限公司), a company established with limited liability in the PRC and wholly owned by Beijing Xigua
"United States"	the United States of America
"US$" or "USD"	United States dollars, the lawful currency of the United States
"VR"	virtual reality
"VR Experience Services"	the VR experience services to be provided by the Group to KongZhong Group pursuant to the Strategic Cooperation Framework Agreement
"Wang Trust"	a discretionary trust set up by Mr. Wang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Wang and certain of his family members
"Weidong"	Guangzhou Weidong Internet Technology Co., Ltd. (also referred to as Guangzhou Weidong Internet Technology Company Limited)* (廣州維動網絡科技有限公司), a limited liability company established under the laws of the PRC on 22 January 2007

DEFINITIONS

"Weilaijin"	Beijing Weilaijin Technology Co., Ltd. (also referred to as Beijing Weilaijin Technology Company Limited)* (北京未來金科技有限公司), a limited liability company established in the PRC, the entire equity interest of which is held by Jinweilai
"Xigua Acquisition"	the acquisition of 69.84% equity interest in Beijing Xigua
"Xigua Group"	Beijing Xigua and its subsidiaries
"Yinker"	Yinker Inc., an exempted company incorporated with limited liability under the laws of the Cayman Islands
"Yunke"	Jiujiang Yunke Internet Microfinance Co., Ltd.* (九江市雲客網絡小額貸款有限公司), a wholly-owned subsidiary of Feiyin established under the laws of the PRC in 2016
"Zhuangjg Trust"	a discretionary trust set up by Mr. Zhuang of which Managecorp Limited acts as the trustee and the beneficiaries of which are Mr. Zhuang and certain of his family members
"*91wan*"	the self-publishing platform, namely 91wan.com

* The English name is translated for reference purpose only in this annual report

APPENDIX: ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is the fourth Environmental, Social and Governance Report (the "ESG Report" or this "Report") of Forgame Holdings Limited ("Forgame", together with its subsidiaries, collectively the "Group", "we", "us" or "our").

In preparing this Report, we are in compliance with the applicable disclosure requirements of the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") in Appendix 27 to the Listing Rules of the Hong Kong Exchanges and Clearing Limited ("HKEX") and adhere to the reporting principles of Materiality, Quantitative, Balance and Consistency.

This Report covers the material and meaningful ESG issues to Forgame for the period from 1 January to 31 December 2019. The Group is principally engaged in developing and publishing domestic and overseas webgames and mobile games as well as providing internet micro-credit service in the People's Republic of China (the "PRC"). During the year, the Group expanded its business to developing and publishing VR games and the operation of offline VR games store.

This Report is based on the relevant documents, reports and statistics from the wholly-owned subsidiaries or subsidiaries with majority interest under the management of Forgame. This Report has been reviewed and approved by the Board on 13 May 2020. The Board takes no responsibility for the accuracy, correctness or completeness of the contents of this Report and declares that this ESG report is free from false account or misleading statements.

We treasure every feedback from our valuable stakeholders. Should you have any opinions or suggestions about this Report and our sustainability performance, please send your feedback to IR@forgame.com.

ABOUT FORGAME

Company Profile

Forgame was established in 2009 and listed on The Stock Exchange of Hong Kong Limited in 2013. Dedicated to delivering joy to our users, we have successfully developed and launched hundreds of high quality webgames and mobile games. Furthermore, we also manage 91wan, a game publishing platform in China. In addition to game development and publishing, we also devote ourselves in developing the business segment of fintech by utilizing the Group's advanced technological capacity. During the year, as it is expected that the e-sports and virtual reality industry will become an important growth point in the Internet industry, especially the development of virtual reality technology will be strengthened with the support from the increasingly mature 5G technology and its pre-commercialization. In order step into the VR games, we have acquired Beijing Xigua in 2019.

During the reporting period, in response to stricter regulatory requirements and the increasing demand of the advanced fintech products, the Group have strategically strengthened and positioned the operations of its fintech business by embracing the value of big data with artificial intelligence and machine learning. The Group's dedicated investment and in-depth industry knowledge provide a solid foundation for the industry leading position and success in the ever-growing fintech industry. While continuing the micro-credit business in the PRC with the Jiangxi Microcredit Business License (《江西省小額貸款公司經營許可證》) granted by the government, the Group generates values to our users and stakeholders by providing standardized and regulatory compliance products utilizing the Group's technology know-how under its financial information service business.

Vision

To become a global leading fintech and light game company.

Mission

To provide users with great product experience under the principles of "Simple happiness, inclusive finance".

Philosophy

AWARDS AND RECOGNITION

- "2019 Outstanding Contribution Award" (2019年突出貢獻獎) — Guangdong Entertainment & Game Industry Association
- "Guangzhou Harmonious Labour Relations Enterprise" (廣州市勞動關係和諧企業)
- "Guangzhou Key Cultivating Enterprise in Services and Trading industry" (廣州市服務貿易重點培育企業)

ESG MANAGEMENT

Our Sustainability Approach

Sustainable development sets the pivot of our visionary strategic move in our long-term development plan of further expanding our operations in fintech industry. By embodying environmental, social and governance principles in our strategy planning and business management, the Group leverages its own professional industry knowledge and technology to continue bringing positive impact on the community by creating a healthy and sustainable cyberspace and minimizing our impact on the environment while consolidating our presence on the Internet, media and technology territories.

Embracing the value of sustainability to evaluate the operations environment and identify room for improvement in operations, we have formulated a set of ESG-oriented policies to promote and manage material environmental, social and governance issues, which include product responsibility, labour practices, anti-corruption and environmental protection. In the long run, we are committed to promoting the value of sustainability and integrate sustainable development principles in the Group's and our business partners as a responsible corporate citizen. For details, please refer to the corresponding sections of this Report.

ESG REPORTING AND MANAGEMENT STRUCTURE

ESG Reporting and Management Hierarchy of Forgame

Responsibilities	Division or department	Main Missions
Approval and review	The Board	• Reviewing the ESG Report
Coordination	ESG reporting team	• Planning and preparation for the overall ESG reporting work • Identifying major ESG issues for the Group • Compilation of the ESG report • Reporting progress of ESG work to the Board
Compiling statistics	Various departments of the headquarters and the ESG representatives of the subsidiaries	• Collecting, organizing and reporting ESG information on a regular basis • Rationalizing ESG management practices and making recommendations

In order to further develop a solid and sound management framework, Forgame will continue to improve its ESG management structure in the future, so as to strengthen its ESG risk management, gradually identify its ESG targets and divide the ESG risk monitoring responsibilities among each level, thereby enhancing the risk management efficiency of the Group.

Communications with our Stakeholders

Major Stakeholders and Communication Channels

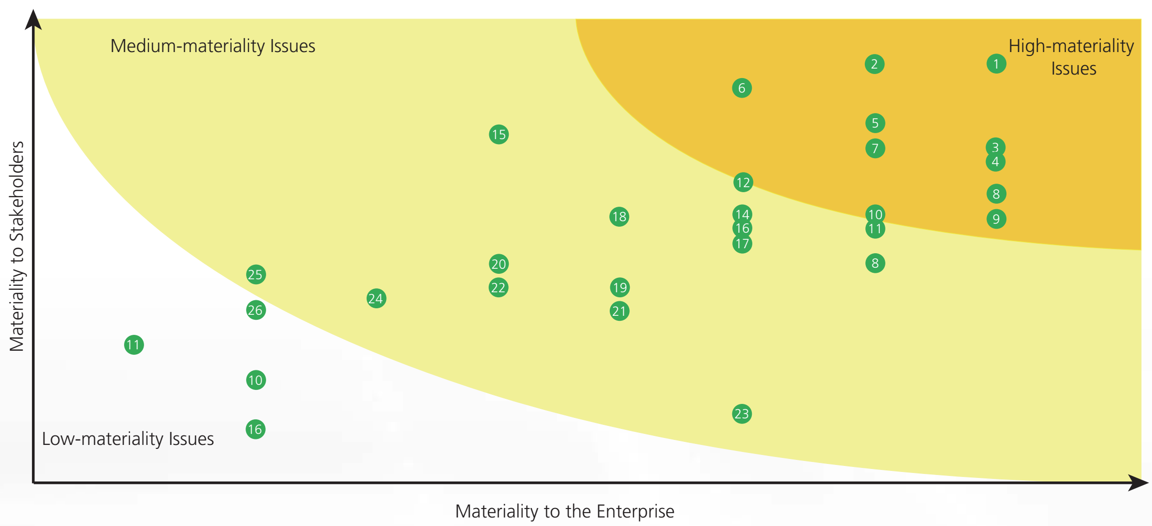
Stakeholders	Expectations and demands	Major communication channels
Employees	• Occupational health and safety • Employees' rights protection • Staff training and development • Employees' remuneration and benefits • Diversity and equal opportunities	• Staff seminars and regular meetings • Staff engagement activities • WeChat • E-mail
Customers (Game users/borrowers)	• Consumer rights protection • Customer communications and services • Users' privacy protection • Game and operation quality • Information security • Safe operation of physical stores	• Official WeChat • E-mail
Investors/shareholders	• Digital risk controls • Product and service innovation • Anti-corruption • Protection of rights and interests • Operational risk management and controls • Anti-unfair competition • Talent attraction and retention	• Press conferences • Investor and analyst meetings • Announcements on the Stock Exchange • Company visits • On-site visits for projects • Investor relations page • WeChat • E-mail
Suppliers/business partners	• Integrity in contract fulfillment • Win-win cooperation • Equal cooperation • Joint development	• Terms of cooperation agreements • Supplier code of conduct • Other policies or codes • Project meetings • WeChat • E-mail
Media	• Electronic wastes • Charity donation • Reasonable marketing and promotion • Public's right to know	• Official WeChat • Company's website
Government	• Law compliance	• Official WeChat • Company's website

Materiality Analysis

The materiality assessment of Forgame in 2019 consists of the following procedures:

Steps	Contents
Identifying ESG material issues	Taking into account of compliance requirements, ESG disclosure trends in the industry and its own business characteristics, the ESG team of Forgame has identified a series of ESG issues that had a significant impact on the Group's business development and stakeholder concerns.
Materiality analysis of ESG issues	Through interviews and online surveys, we have collected internal and external stakeholders' expectations and recommendations for ESG management of Forgame, so as to determine the materiality of each ESG issue to the stakeholders and the Group.
Constructing materiality matrix	By prioritizing the issues according to their materiality to the Group's business development and the stakeholders and constructing a materiality matrix, we have determined the issues to be disclosed in this Report.

Materiality Matrix of ESG Issues



The issues mapped on the top right-hand corner of the materiality matrix are identified as the most material issues while those mapped on the bottom left-hand corner are identified as the low materiality issues. The above results have been confirmed by the senior management of Forgame as part of the materiality assessment process. The ESG materiality ranking of Forgame in 2019 is shown in the table below, with the numbers corresponding to those in the matrix.

ESG Materiality Ranking of Forgame in 2019 (in Descending Order)			
Materiality	Sequence	Aspects	Titles
High-materiality issues	1	Social	Consumer rights protection
	2	Social	Customer communications and services
	3	Social	Users' privacy protection
	4	Social	Occupational health and safety
	5	Social	Intellectual property protection
	6	Social	Talent attraction and retention
	7	Social	Game and operation quality
	8	Social	Employees' rights protection
	9	Social	Information security
	10	Social	Staff training and development
Medium-materiality issues	11	Social	Employees' remuneration and benefits
	12	Social	Safe operation of physical stores
	13	Environmental	Electronic wastes
	14	Governance	Digital risk controls
	15	Governance	Product and service innovation
	16	Social	Enhancing credit awareness of the public
	17	Governance	Anti-corruption
	18	Social	Diversity and equal opportunities
	19	Social	Supplier's environmental and social performance evaluation
	20	Social	Promoting industry development
	21	Social	Supplier assessment and management
	22	Social	Reasonable marketing and promotion
	23	Social	Charity donation
	24	Governance	Anti-unfair competition
	25	Governance	Serving the real economy
Low-materiality issues	26	Governance	Anti-money laundering
	27	Environmental	Use of resources and energy conservation
	28	Environmental	Greenhouse gas emissions and actions taken for climate change
	29	Environmental	Development of green finance

RESPONSIBLE PRODUCTS AND SERVICES

As a leading technology enterprise, the Group is committed to continuously improving its product and service quality and provides its customers with the best experience by focusing on the management of various aspects such as product development, operation and customer communications. We also conduct a strict review on the products and services provided to ensure compliance with all applicable laws and regulations.

Offering High-quality Products and Services

Game Business

The Group offers various games of diverse genres, such as turn-based RPGs (Role-playing games, 回合制角色扮演遊戲), ARPGs (Action Role-playing games, 動作角色扮演遊戲), strategy games and action fighting games, so as to provide diversified game and entertainment experience for its players with different interests and preferences, coherent to the Group's mission of providing users with great product experience under the principles of "Simple Happiness".

The Group keeps abreast of the changes in laws and regulations of the game industry to ensure operational compliance. The Group holds valid licences such as the Value-Added Telecommunications Licence of the PRC (《中華人民共和國增值電信業務經營許可證》 and the Internet Publication Licence (《互聯網出版許可證》) to legally carry out game development and operation business. According to the "Group Internal Review of Game Content Policy" (《集團遊戲內容自審管理規定》), our legal team and required licence holder will conduct an internal review on the games before they are published in order to ensure that the game content is in compliance with the Interim Measures for Administration of Online Games (2017 Revision) (《網絡遊戲管理暫行辦法(二零一七年修訂版)》). Since the Interim Measures for Administration of Online Games (2017 Revision) was abolished in July 2019 and no alternative laws have been introduced so far, the Group still strictly abided by its content requirements during the year. At the same time, the Group also maintained close communications with the relevant competent government authorities, paid attention to the legislative trends of the industry and took necessary measures in advance.

Prior to launching a new game, a series of internal testing of functions, smoothness, background and firewall set-up will be conducted during the review process to guarantee the game's readiness of offering the best game experience to players. Upon completion of the internal tests, a beta test on 91wan and other publishing platforms will be conducted to collect external users' feedback to identify areas to improve and optimize the game quality. The server's capacity and ability to manage high user traffic will also be tested to ensure a smooth operation when the game is launched out.

Internet Micro-credit Business

Our strategic focus is to leverage on the Group's knowledge acquired, technology developed and talents employed. We are committed to bringing inclusive financial services to the public by providing equal access of the financial services to the individuals in need. To ensure the compliance of our operations with the relevant state regulations, certain licenses or qualifications such as Jiangxi Microcredit Business License (《江西省小額貸款公司經營許可證》) were obtained to enhance the efficiency of risk management.

As a responsible corporate citizen, we are proactively abiding with the statutory laws and regulations that fintech operation has to comply with. Concerning Yunke's operation, we continuously review the operation to ensure stringent compliance with the Guidelines for the Supervision and Administration of Network Microcredit Companies of Jiangxi Province (for Trial Implementation) (《江西省網絡小額貸款公司監管指引(試行)》) in order to bring risks in fintech under control so as to increase users' confidence in the services.

Virtual Reality (VR) Entertainment Business

During the year, the Group expanded into the VR entertainment business through the acquisition of Beijing Xigua. According to the "VR One" plan, the Group invited industry elites as its strategic partners to develop various aspects such as IP, contents, hardware manufacturers, technology providers, scenarios and users. Joining hands with its global partners, the Group will strive to build a VR ecosystem, tap into the large-space VR entertainment consumption market and provide the most cost-effective VR entertainment experience for its customers.

By opening self-operated and franchised offline large-space VR experience stores under the brand "Player No.1", the Group has established its presence in the VR entertainment industry. With standardized procedures covering product experience, guidelines, service explanation and back-office management, we are committed to providing a VR entertainment and social platform for our customers, especially the younger generation. Currently, the Group operates 6 self-developed VR games with core gameplay covering multi-player battles, multi-player challenges and RPGs. The Group has also launched 3V3 interactive game models to bring new social and entertainment experiences to its customers.

Customers' Rights Protection

Data Privacy Protection

Ensuring data privacy is essential to maintain our relationships with customers and business partners. To comprehensively manage the potential information security risk and handle relevant emergencies, the Group established the Information Technology Internal Control Handbook (《集團信息技術內部控制手冊》) in accordance with the "Control Objectives for Information and related Technology" issued by ISACA (Information Systems Audit and Control Association) to ensure a stable, safe and efficient system that can support the Group's long term development in internet business. The handbook provides clear guidance on risk management in different stages of operations to mitigate information security risk. In addition, an emergency response system is also outlined in the handbook to enable the staff to understand the steps to be taken when there is an issue related to the information security found. As safeguarding the information security requires continuous efforts, the handbook places emphasis on the importance of regular reviews on the procedures and measures to make sure that the solutions to be provided can efficiently mitigate the corresponding risks.

To minimize risks of data loss and leakage, extensive data security measures were adopted including the limited and controlled access right of critical information, encrypted password and data transmission, and back up of data at two or more different locations in our internal servers and further in our long-distance disaster recovery system. Meanwhile, the Group has also implemented the "Group Visitor Control Management Procedures" (《集團訪問控制管理制度》) to restrain the internet access of our visitors to prevent potential data losses.

The Group believes that all staff members are the important contributors to a safe and reliable system. Hence the management handbook clearly defines the responsibility of each department and staff on how to ensure the system is reliable. Employees are required to sign a confidentiality agreement to acknowledge their duty in keeping the identified information confidential, including sales data, business plans, personal information of customers and intellectual property. The access right control in relations to customer personal data is set up so that our employees get limited access to sensitive data on a need-to-know basis. In addition, the Group has also formulated the "Software Management Policy" (《集團軟件使用管理制度》) and the "Malicious Software Management Procedure" (《集團惡意軟件控制管理制度》) and other guidelines as precautionary measures to minimize the information security risks by strengthening our staff's awareness over the risks from external software.

Responsible Advertising

The Group is committed to minimize the potential impact brought by controversial or inaccurate content in advertisements or promotional materials through effective internal management of the advertisement content. We have formulated the "Forgame Group and Investment Company Publicity Guidelines" (《Forgame 集團及投資公司對外宣傳指引》), which provides detailed requirements on the use of advertisement and promotional materials, in accordance with the Advertisement Law of the PRC (《中華人民共和國廣告法》) and Interim Measures for Administration of Internet Advertising (《互聯網廣告管理暫行辦法》). Besides, the guidelines outline the appropriate internal review process to ensure compliance, accuracy and authenticity of all publicized materials, such as press conferences, articles and web content. The guidelines also provide the industry best practices for our staff's easy reference, especially the laws and statutory regulations in regard to advertisement and marketing materials for fintech.

Safe Operation of Physical Stores

We are committed to providing players with a safe VR entertainment experience environment. Game preparation, wearing device, game start and end of experience are clearly defined in our Service Specification Guidelines (《服務規範準則》).

Preparation stage: The staff must brief all safety precautions such as device and game operation to the players in person and ensure that the players fully accept those safety instructions. We will also include safety precautions in the game introduction video to ensure that the players fully understand the game operation and the safety precautions of a specific game.

Wearing device stage: The staff will wear and check the device for the players, and adjust the device according to their eyesight and age to ensure that the device is used in a safe and reliable condition.

Game start stage: We will provide the players with adaptive guidance to ensure that the players have a basic understanding of the operation method before enjoying their experience.

End of experience stage: We will inform the players at the end of the game and assist them to take off the device in an orderly manner. We will clean and disinfect the device as soon as the player leaves the game area to ensure the health and game experience of the next player.

Responsible Operation

Intellectual Property Protection

The Group is committed to preserving the achievements of our research and development team and avoiding infringement of the intellectual property rights. We have established the "Guidelines on Prevention of Legal Risks in the Research and Development and Operations of Online Games" (《網絡遊戲研發及營運法律風險防範指引》) and the "Intellectual Property Management Policy" (《知識產權管理制度》) to reinforce the protection of intellectual property right by formulating standard operating procedures. The Group's intellectual property includes copyright, trademark, patent, trade secret and other rights endowed by the Patent Law of the PRC (《中華人民共和國專利法》), the Trademark Law of the PRC (《中華人民共和國商標法》), the Copyright Law of the PRC (《中華人民共和國著作權法》), the Administrative Measures on China Internet Domain Name (《中國互聯網絡域名管理辦法》), the Measures for Software Products Administration (《軟件產品管理辦法》), the Anti-unfair Competition Law of the PRC (《中華人民共和國反不當競爭法》) and other applicable laws and regulations, under which games, software, artwork, new technology, skills and other relevant rights are covered. Confidentiality is held in high regard in order to protect intellectual property. All involved parties are not allowed to disclose or deliver relevant information to others during the product development and creation process.

Supply Chain Management

The Group attempts to achieve sustainable development in supply chain. We mitigate ESG related risks from supply chain by applying strict criteria and procedures. A list comprising of at least three qualified suppliers for each purchase will be formed to ensure procurement risk mitigation and a stable supply chain. To keep a competitive profile of suppliers, the Group selects suppliers carefully to ensure that their products or services meet the requirements of the Group by conducting thorough assessment.

The Group will perform a preliminary assessment based on quality and price to shortlist suitable suppliers before adding them to the supplier list for the particular items. Shortlisted suppliers will be further evaluated based on the quality of products, payment terms, delivery and after-sale services before we make the decision on which supplier to go for business with.

Whilst the existing suppliers duly engaged, on the other hand, will be evaluated on an annual basis with reference to a list of objective factors including the price, quality of products, payment terms, delivery and after-sales services for product suppliers and service quality, staff quality and cooperativeness of service providers. Suppliers who passed the assessment will be kept on the list as approved suppliers.

To ensure the sustainable development of the business, engaged supplies are required to sign up the supplier code of conduct issued by the Group along with the contracts to commit to meeting or exceeding the legal requirements in respect of occupational health and safety, anti-discrimination, environmental protection and anti-corruption and fraud.

During the reporting period, the Group completed the subscription of the equity of Beijing Xigua. By consistently applying the control and management measures to the quantity and quality of products from its suppliers, the Group evaluates its suppliers based on three aspects, i.e. the quality, price and delivery of goods. The R&D department will conduct a one-month preliminary test on the alternative supplier's products, evaluate its performance and issue an evaluation report. Meanwhile, we will also assess whether the suppliers have a long-term stable supply capacity, production capacity that meets our demand and the ability to ensure that its products meet our quality requirements. The suppliers are also required to commit to environmental protection, social responsibility and health and work safety.

Anti-corruption

To embrace business integrity for sustainable operations, the Group promotes fairness and integrity by deterring unethical business practices, including bribery, fraud and corruption. The code of ethics in the employee handbook emphasizes the importance of abiding by statutory laws and regulations to staff. The employee handbook also states clearly with the responsibility for violations. We will make our best effort to ensure employees understand the code of ethics and make it a part of daily business activities in order to create a positive corporate culture placing integrity and honesty on a high priority.

The Group strictly abides by the relevant laws and regulations including the Company Law of the PRC (《中華人民共和國公司法》), the Anti-unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), the Basic Standards for Internal Control of Enterprise (《企業內部控制基本規範》) and the Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》), and has formulated the "Forgame Anti-Corruption Management Policy" (《Forgame 集團反舞弊管理制度》) to provide clear monitoring procedures and reporting channels. Staff should report any suspected misconduct by hotline or e-mail. The Group will assess the tip-offs, and then conduct independent investigations depending on severity.

Yunke, a subsidiary of the Group, strictly adheres to the Guidelines about Micro-Credit Pilot Enterprises(《關於小額貸款公司試點的指導意見》) jointly issued by China Banking Regulatory Commission and People's Bank of China, the supervision guidelines for micro-credit companies issued by Jiangxi Provincial Government and other relevant regulations. By actively conducting self-examination of business requirements and business conditions on a regular basis, conducting operating activities legally and entering into loan agreements with its borrowers, which strictly define the rights and obligations of both parties, in accordance with laws and regulations, Yunke strives for healthy and standardized operations.

To prevent violation issues that could damage the reputation of the Group, the internal audit department will regularly review the current policy and conduct the investigation analysis to implement the corrective measures in a timely manner. There was no litigation against the Group or its employees concerning corruption, bribery, fraud, extortion and money laundering in Reporting Period.

CARING FOR EMPLOYEES

Insisting on innovation and development and attracting and retaining high caliber lay the cornerstone to Forgame's core competitiveness. We are committed to growing with our employees by creating a diverse and inclusive workplace atmosphere, formulating comprehensive welfare policies, improving training and promotion system to retain talents, insisting on the protection of employees' legitimate rights and interests and their health and safety.

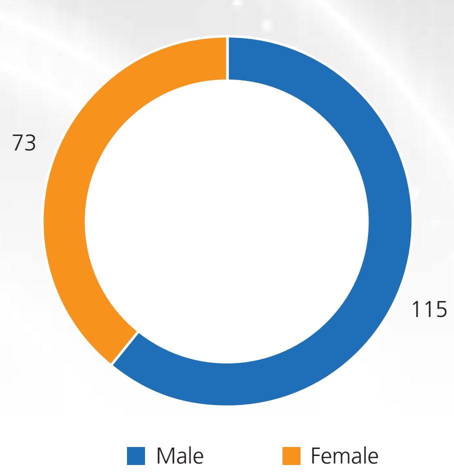
Talent Acquisition

The Group attaches great importance to talent acquisition and recognizes that the success of an enterprise is inseparable from its employees at all levels. In 2019, we looked for people passionate in game development and publishing, VR and fintech through a variety of recruitment channels including internal referral, campus recruitment, social media recruitment, online recruitment, talent market and head hunters to strengthen our workforce.

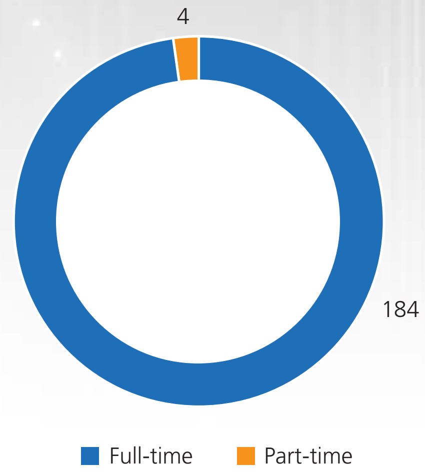
As of 31 December 2019, Forgame had 188 employees[1] in total. The Group's employees continued to be young in average age with employees aged below 30 accounting for 52% of the total number of employees. Female employees accounted for 39% of the total number of employees. Both employees' age and gender distribution reflect the characteristics of the game industry (2018: 432 employees in total, with employees aged below 30 accounting for 71% of the total number of employees).

[1] The statistics do not include dispatched employees.

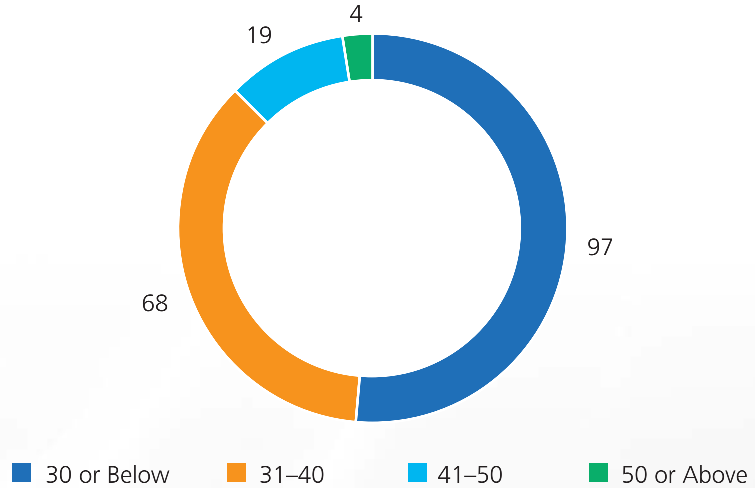
Number of Employees by Gender



Number of Employees by Employment Type



Number of Employees by Age Group



In order to meet the needs and reasonable allocation of human resources for the Group's operation management and business development, and further standardize the induction procedures for all departments, we have amended the "Forgame Group Recruitment and Induction Management System" (《Forgame 集團員工招聘及入職管理制度》) in June 2019 to recruit suitable talents under the principles of equality, openness and fairness.

Protection of Legitimate Rights and Interests

Compliance with Employment Laws

To ensure that all aspects of the employment procedures are in compliance with laws and regulations and to avoid child or forced labour, the Group abides by the relevant laws and regulations of the Labour Law of the PRC (《中華人民共和國勞動法》) and corresponding provisions in its human resources management system. All new recruits are required to provide an original identity card for verification during induction to ensure that they meet the minimum working age requirements. At the same time, the staff manual and other human resources management system of the Company fully protect the legitimate rights and interests of our employees and prohibit child or forced labour within the Company. During the reporting period, no child or forced labour was discovered within the Group.

Protection of Employment Rights	During the recruitment process, the Company will truthfully inform the candidates of the job details, working conditions, workplace, occupational hazards, remuneration packages and other information required by the candidates.
Strictly prohibiting illegal and violent employment	Forcing employees to work by means of violence, threats or illegal restrictions on personal freedom, or executing illegally instructions or risky operations which will endanger the personal safety of the workers are prohibited.

Remuneration Packages

In order to continuously attract and retain talents, we have been improving the remuneration management system for our employees to maintain a unified, objective and fair remuneration system, including the five mandatory insurance funds and the housing fund and performance bonus.

The Group provides employees with social insurances which cover endowment, unemployment, medical, maternity and work-related injury, and housing provident fund in accordance with statutory laws and regulations including the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Regulations on the Administration of Housing Accumulation Funds (《住房公積金管理條例》). All employees are granted annual leave, bereavement leave, marital leave, medical leave and maternity leave in addition to public holidays and statutory holidays.

Employee Turnover

We value the relationships with our employees and strictly abide by the applicable laws and regulations in respect of employee turnover (regardless of resignation or dismissal). In June 2019, we have amended the "Forgame Group Employee Turnover Management System" (《Forgame 集團員工離職管理制度》) to standardize the turnover management process of the Group, so as to ensure the normal operation of the Group's work, minimize the turnover rate and avoid related disputes and legal risks.

The employment contracts signed by the Group and its employees clearly set out the circumstances and reasons for termination of employment. In addition, we will arrange exit interviews with the employees to ascertain the reasons for their resignation and collect their recommendations.

Creating a Harmonious Workplace

Diversity and Anti-Discrimination

Our employment practices are in compliance with applicable laws and regulations of the places where we operate, including but not limited to the laws and regulations prohibiting child and forced labour. We do not discriminate against anyone based on reasons such as gender, race, physical condition, marital status, age, religion, sexual orientation or family status to support diversified corporate culture.

Employees' Health and Safety

The Group is dedicated to providing a safe and comfortable workplace for all employees. Our Employee Handbook (《僱員手冊》) clearly stipulates relevant provisions in respect of occupational health and safety to ensure strict compliance with the Law of the PRC on Work Safety (《中華人民共和國安全生產法》) and the Law of the PRC on Occupational Disease Prevention (《中華人民共和國職業病防治法》). The Group currently has sound security and fire-fighting system in place. Fire drill is conducted annually while inspections on fire equipment are conducted monthly to eliminate all fire hazards in the workplace. As for daily operation, the Group regularly promotes precautions in respect of power consumption safety, office material safety and daily out-of-office safety to enhance the employees' safety and health awareness. We also provide our employees with various facilities such as gyms and leisure areas for relaxation to strike a proper balance between work and rest.

The Group places great emphasis on the physical and mental health of our employees. We organize medical check for the employees on a regular basis and hold on-site seminars for the employees to gain a better understanding of their medical reports. We also analyze the medical check results of the employees and regularly invite physicians to hold occupational health seminars. To reduce the health risks of sedentary workers arising from sitting for a lengthy period of time in office, we have purchased ergonomic office chairs for all employees. We also provide blankets for use and distribute summer supplies during summer time to show all employees that we care about them.

Communications with Employees

Efficient communications are effective way to maintain a positive relationship with employees. To understand the thoughts and opinions of our employee, the Group has set up a number of communication channels, ranging from meetings to progress reports in WeChat and by email. Every one of us is encouraged to share advices, express personal views and concerns through these channels.

Employees' Benefits

To help achieving work-life balance for our employees, we have implemented various measures such as flexible working hours and charitable leave.

Meal subsidies	Attendance award	Afternoon tea and snacks
Festive gifts	Medical check	Beverage subsidies
Additional insurance	Free fruits	Flexible working hours

In addition, to promote work-life balance and strengthen the bond among and relationship between the staff, the Group organize events with our staff regularly, for instance, themed annual dinner, outdoor development activities, sports activities and festive events.

2019 Major Events

"雲遊MVP之夜", the Themed Annual Dinner

The purposes of this event included recognizing outstanding employees and their values, expressing our gratitude to business partners and promoting the value of corporate culture. By giving speech, putting on performances and presenting awards at this event, Forgame gave an annual summary and affirmation to all employees and their families.

"愛你依舊　凝心聚力", the Girl's Day Event of Forgame

Forgame encourages its female employees to reposition themselves and show their charisma at work. By arranging make-up courses and sending blessings videos and gifts, Forgame has expressed its care to its female employees.

Forgame's Outdoor Development Event in Spring

By organizing outdoor team-building event, we managed to promote the idea of balancing between work and rest, reinforce our corporate culture and boost team spirit.

"心粽有你", the Themed Dragon Boat Festival Event
In 2019, the Group held "心粽有你", the themed Dragon Boat Festival event, to recall the memory of the employees of the past Dragon Boat Festival and their time spent in Forgame. Traditional mini games were held and a photo wall with pictures of the past Dragon Boat Festival was displayed at the event. The Group has also bestowed festive gifts to its employees.

"夢想起航，童心飛揚", the Children's Day Event
By organizing the Children's Day event, the Group, together with its employees, promoted the development of children's education so as to strive for continuous value creation and realize social values. Games related to younger and older children and a DIY workshop for the parents and children to look back on the development of "雲二代" were held at the event.

Nurturing Talents and Career Development

Out of enthusiasm and passion for the industry, talents from various fields with a sense of mission and accomplishment gather at Forgame, with an aim to develop Forgame as a world's leading fintech and light game company. It is necessary to have abundant training resources for employee development. The Group will continue to improve its training system and supporting resources, standardize training management and train its employees in a systematic and organized manner so as to ensure the effective implementation of its talent management strategy.

The Group attaches great importance to encouraging innovation, offering a creative and conducive working environment that promotes learning and growth, and striving to maximize employees' potentials and help them achieve their goals. In 2019, we have carried out various trainings focusing on its business at operational, functional and store levels, including daily management courses for team managers. In 2019, the average training hours completed per employee was approximately 7.7 hours[2]. In addition, we encourage our employees to obtain certificates or look for further education. The employees will be entitled to paid examination leave.

Average Training Hours Completed per Employee

Case: Talent Empowerment Program

In response to the Company's business strategic transformation, and with an aim to stimulate its internal motivation and improve the management skills of the employees, the Company launched a new manager empowerment program in 2019 and attracted over 20 junior managers to join. Such project was designed as a four-party development system for the staff, line managers, department managers and HR based on their job competency. By establishing a personal IDP (Individual Development Plan) for each employee, empowerment programs were provided through offline learning, project execution, readings and management debates. By introducing various courses such as《一分鐘經理人》,《高效能人士七個習慣》,《透過結構看問題解決》and《透過結構看專案管理》to effectively help the team to unify the management language and have a better understanding of the corporate culture, certain new cadres successfully adapted to their new management positions.

2 The number of employees trained excluded Beijing Xigua.

GREEN OPERATION

As a listed fintech and light game company, in addition to its dedication to research and development and operation of games, the Group also expresses its commitment to the society and environment in which it operates. Taking into account of environmental protection in its daily operations, Forgame has formulated the "Forgame Environmental Policy" (《Forgame集團環保政策》). Aiming at becoming a green operating company, we will devote more resources and time to sustainable development to achieve its emission reduction goals and enhance the employees' awareness of environmental protection.

With the gradually establishment of our own standardized procedures for environmental management and information collection, we are able to disclose such information to the stakeholders in this Report. Taking into consideration of the environmental impact of the Group's operation in a responsible manner, certain environmental factors such as green operation have been incorporated into our risk management and cost control measures through monitoring the environmental data.

Use of Resources and Greenhouse Gas Emissions

As an enterprise principally engaged in light game and fintech business, one of the major environmental impacts of Forgame is energy consumption for maintaining the normal operation of its own equipment and the corresponding indirect greenhouse gas emissions. The Group focuses on greening of and tidying up office space, energy conservation and consumption reduction in its daily operations to promote sustainable development.

Indicators[3]	Unit	2019
Electricity consumption	kWh	397,009
Electricity consumption per capita	kWh/person	2,111.75
Greenhouse gas emissions in total	tCO_2-eq	257
Greenhouse gas emissions per capita	tCO_2-eq/person	1.37

3 The environmental data excluded offline VR stores.

Energy Conservation Management

- Every air-conditioner is equipped with a time controller, which will automatically turn off the air conditioner during non-working hour or when the occupancy rate in office is low, to reduce idle time of the air conditioner;

- Maintenance and cleaning of air-conditioners are performed regularly to ensure smooth operation of fan trays, reduce energy consumption and provide our employees with a healthy office environment;

- The temperature of each air-conditioner is set at 26°C or above and our employees are encouraged not to set the air-conditioners to a low temperature;

- Last person to leave the office must turn off all equipment including lightings and air-conditioners. Energy-saving signs have been posted at the prominent places near the power control switches and energy-saving messages have been sent through online channels such as official WeChat on a regular basis;

- Energy-saving LED lightings are installed in the corridors of the office.

Public Transportation

To promote the concept of energy conservation and environmental protection, we are also devoted to encourage our employees to practice sustainable living and share the idea of sustainability to their families and communities. In addition to regularly promote energy conservation and emission reduction, employees are also encouraged to commune with public transportation as much as possible to reduce greenhouse gas emissions per capita.

Waste and Water Resource Management

In 2019, electronic waste and printing consumables are the major sources of waste generated by Forgame. To reduce waste, employees are urged to reduce resource consumption and encourage recycling. Non-recyclable items are collected and disposed by recyclers with professional qualification on a regular basis.

Electronic Waste Management

Retiring or idle equipment, including monitors, computers, servers and phones, will be sold to professional second-hand buyers to utilize such equipment and extend its life cycle depending on its conditions.

Water Conservation Management

Automatic sensor taps are installed in toilets to avoid forgetting turning off the faucets or using too much water. Meanwhile, water-saving signs have been posted at the prominent places near the faucets with regular replacement and promotion. As the Group obtains water solely from municipal water supplies, no issue in sourcing water has been identified.

Paper Management

- To promote paper saving, paper-saving signs have been posted at the prominent places near the printers and toilets and included in the general promotional materials. Recycled paper of the same quality and price is given priority in the paper procurement process;

- Except for official document, double-sided printing is encouraged for other documents. Recycling boxes for printing paper are provided. Recycled paper will be sorted for reprinting or bookbinding by the administrative department for other employees. Reducing page count and reasonable typesetting are also encouraged;

- To further pursue a paperless office, OA electronic approval has been adopted to reduce printing of receipts and electronic document circulation is also encouraged.

Waste Collection

- According to the relevant waste classification standards at the premises in which we operate, waste will be classified into construction waste, food waste, hazardous waste and domestic waste. Under the arrangement of the premises, waste will be collected and sent to refuse collection points at the scheduled time every day for further processing;

- Recyclable waste or waste which will result in severe secondary pollution will be handled separately in the waste collection process. Disposable plastic bottles and aluminum cans will be collected by the premises and sold to second-hand recycler, while secondary pollutants such as batteries and toner cartridges will be packed separately by the premises for further handling;

- Employees are encouraged to treasure food and minimize food waste at source. The Group is also committed to reduce food packaging and encourages its employees to bring their own cutlery.

COMMUNITY CONSTRUCTION

The Group is committed to bringing enjoyment and happiness to our users and the community where the Group belongs to. Focusing on our society's next generation, the Group actively supports education and research on fintech to envision the youth to study the innovation in this area.

In 2019, out of charity with a focus on education and development and emphasizing on education of and caring for children in remote areas, the Group donated books to children in the remote areas of Tibet on the Children's day, i.e. 1 June this year.

At the same time, in order to help young people to gain a better understanding of the development history of game industry and game production process, establish a positive game view and experience online games in a healthy and joyful way, the Group, together with the Form 2 Parent Club of Guangzhou No.2 High School — Suyuan Experimental School（廣州二中蘇元實驗學校初二家長會）, organized a game experience event on 29 December 2018 to invite 10 Form 2 students to the group headquarters. By sharing the culture of Forgame as well as introducing the game business and production process, the organizational structure and qualifications of talents in the game industry and the knowledge system and skills requirements behind the games in a seminar, the Group opened up a new perspective for those students who were interested in the game world. With the opportunity of promoting brand concepts and healthy game habits and developing a correct understanding of the game industry among the teenagers, the Group has successfully promoted the healthy development of the game industry.

APPENDIX I LIST OF DISCLOSURE POLICIES

The Group has confirmed that it has complied with the following external regulations during the reporting year in accordance with the "General Disclosure" requirements of all aspects as set out in the Environmental, Social and Governance Reporting Guide of the Stock Exchange.

ESG Related Laws and Regulations and Policies		
ESG aspects	**External laws and regulations**	**Internal policies**
A1 Emissions A2 Use of Resources A3 The Environment and Natural Resources	Directory of National Hazardous Wastes (《國家危險廢棄物名錄》) Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) Energy Conservation Law of the PRC (《中華人民共和國節約能源法》)	Forgame Environmental Policy (《Forgame 集團環保政策》) Waste Management Process (《廢舊物管理流程說明》)
B1 Employment	Labour Law of the PRC (《中華人民共和國勞動法》) Social Insurance Law of the PRC (《中華人民共和國社會保險法》) Regulations on the Administration of Housing Accumulation Funds (《住房公積金管理條例》)	Forgame Group Recruitment and Induction Management System (《Forgame 集團員工招聘及入職管理制度》)
B2 Health and Safety	Law of the PRC on Work Safety (《中華人民共和國安全生產法》) Law of the PRC on Occupational Disease Prevention (《中華人民共和國職業病防治法》)	Employee Handbook (《僱員手冊》)
B3 Development and Training	Labour Law of the PRC (《中華人民共和國勞動法》)	Forgame Group Employee Entry Instructions (《Forgame 集團員工入職須知》)
B4 Labour Standards	Labour Law of the PRC (《中華人民共和國勞動法》)	Forgame Group Employee Turnover Management System (《Forgame 集團員工離職管理制度》)
B5 Supply Chain Management	Contract Law of the PRC (《中華人民共和國合同法》)	Commitment Letter to Supplier Code of Conduct (《供應商行為準則承諾函》)

ESG Related Laws and Regulations and Policies		
ESG aspects	**External laws and regulations**	**Internal policies**
B6 Product Responsibility	Patent Law of the PRC (《中華人民共和國專利法》) Copyright Law of the PRC (《中華人民共和國著作權法》) Trademark Law of the PRC (《中華人民共和國商標法》) Guidelines on the Key Points of Supervision and Enforcement of Virtual Currency for Online Games (《網絡游戲虛擬貨幣監管和執法要點指引》) Administrative Measures on China Internet Domain Name (《中國互聯網絡域名管理辦法》) Measures for Software Products Administration (《軟件產品管理辦法》) Measures for Internet Information Services of the PRC (《中華人民共和國互聯網信息服務管理辦法》) Advertisement Law of the PRC (《中華人民共和國廣告法》) Interim Measures for Administration of Internet Advertising (《互聯網廣告管理暫行辦法》) Interim Measures for Administration of Online Games (《網絡遊戲管理暫行辦法》)	Forgame Group Guidelines on Prevention of Legal Risks in the Research and Development and Operations of Online Games" (《Forgame 集團網絡游戲研發及運營法律風險防範指引》) Forgame Group and Investment Company Publicity Guidelines (《Forgame 集團及投資公司對外宣傳指引》) Group Visitor Control Management Procedures (《集團訪問控制管理制度》) Group Internal Review of Game Content Policy (《集團遊戲內容自審管理規定》)
B7 Anti-corruption	Anti-unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) Measures for Banning Illegal Financial Institutions and Illegal Financial Business Activities (《非法金融機構和非法金融業務活動取締辦法》)	Forgame Anti-Corruption Management Policy (《Forgame 集團反舞弊管理制度》)
B8 Community Investment	Charity Law of the PRC (《中華人民共和國慈善法》)	All charity and donation activities of the Group were carried out in strict compliance with relevant internal approval procedures.

APPENDIX II LIST OF QUANTITATIVE DISCLOSURES

List of ESG Quantitative Disclosures of Forgame in 2019			
ESG indicators		**Unit**	**Data in 2019**
A. Environmental[4]			
A1. Emissions			
A1.2	Greenhouse gas emissions in total and intensity		
	Greenhouse gas emissions in total	tCO_2-eq	257
	Scope I: direct emissions	tCO_2-eq	19
	Scope II: indirect emissions	tCO_2-eq	238
	Greenhouse gas emissions intensity	tCO_2-eq/person	1.37
A1.3[5]	Total hazardous waste produced and intensity		
	Used fluorescent tubes	pieces	72
	Used toner cartridges	pieces	40
A1.4	Total non-hazardous waste produced and intensity		
	Electronic waste	tonnes	3.58
A2. Use of Resources			
A2.1	Energy consumption in total and intensity		
	Gasoline used by company cars	liters	8,492
	Purchased electricity	kWh	397,009
	Electricity consumption per capita	kWh/person	2,111.75
A2.2	Water consumption in total and intensity		
	Office and domestic water consumption	m^3	10,693
	Water consumption per capita	m^3/person	56.88

4 The environmental data excluded offline VR stores.

5 According to the Regulations on the Administration of Domestic Waste Classification in Guangzhou (《廣州市生活垃圾分類管理條例》) and relevant guidelines, used fluorescent tubes and used toner cartridges are classified as hazardous waste.

List of ESG Quantitative Disclosures of Forgame in 2019			
ESG indicators		**Unit**	**Data in 2019**
B. Social			
B1. Employment			
B1.1	Total workforce by gender, employment type, age group and geographical region		
	Total workforce[6]	person	188
By gender	Male	person	115
	Female	person	73
By age	Below 30	person	97
	31-40	person	68
	41-50	person	19
	Over 50	person	4
B1.2	Employee turnover rate by gender, age group and geographical region		
	Total employee turnover	person	353
By gender	Male	person	219
	Female	person	134
By age	Below 30	person	237
	31-40	person	114
	41-50	person	2
	Over 50	person	0
B2. Health and Safety			
B2.1 Number and rate of work-related fatalities			
	Number of fatalities	person	0
	Rate of fatalities	%	0%
B2.2 Lost days due to work injury			
	Number of lost days due to work injury	days	0

6 The statistics do not include dispatched employees.

List of ESG Quantitative Disclosures of Forgame in 2019			
ESG indicators		**Unit**	**Data in 2019**
B3. Development and Training			
B3.2	The average training hours completed per employee by gender and employee category[7]		
	Number of training hours completed	hours	8
By gender	Male	hours	4
	Female	hours	11
B5. Supply Chain Management			
B5.1	Number of suppliers by geographical region		
By geographical region	Mainland China	companies	41
B7. Anti-corruption			
B7.1	Number of concluded legal cases regarding corrupt practices	cases	0
B8. Community Investment			
B8.2	Resources contributed to the focus area		
	Amount invested	ten thousand dollars	18.7

[7] The number of employees trained excluded Beijing Xigua.

APPENDIX III HKEX ESG GUIDE CONTENT INDEX

ESG KPI	Requirements	Chapter/Statement
A1: Emissions	General Disclosure	Green Operation, Appendix I List of Disclosure Policies
	A1.1 The types of emissions and respective emissions data.	As only a limited amount of air pollutants was generated by company cars of the Group, no disclosure has been made in respect of this issue which has been identified as a low-materiality issue after carrying out a materiality analysis.
	A1.2 Greenhouse gas emissions in total and intensity.	Green Operation
	A1.3 Total hazardous waste produced and intensity.	Green Operation, List of Quantitative Disclosures
	A1.4 Total non-hazardous waste produced and intensity.	Green Operation, List of Quantitative Disclosures
	A1.5 Description of measures to mitigate emissions and results achieved.	Green Operation
	A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Green Operation
A2: Use of Resources	General Disclosure	Green Operation
	A2.1 Direct and/or indirect energy consumption by type in total and intensity.	List of Quantitative Disclosures
	A2.2 Water consumption in total and intensity.	List of Quantitative Disclosures
	A2.3 Description of energy use efficiency initiatives and results achieved.	Green Operation
	A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Green Operation
	A2.5 Total packaging material used for finished products and with reference to per unit produced.	Not applicable, as no packaging material was used for finished products of the Group.
A3: The Environment and Natural Resources	General Disclosure	Green Operation
	A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Green Operation

ESG KPI	Requirements	Chapter/Statement
B1: Employment	General Disclosure	Talent Acquisition, Protection of Legitimate Rights and Interests, Creating a Harmonious Workplace
	B1.1 Total workforce by gender, employment type, age group and geographical region.	List of Quantitative Disclosures
	B1.2 Employee turnover rate by gender, age group and geographical region.	No disclosure has been made by the Group for the reporting period.
B2: Health and Safety	General Disclosure	Creating a Harmonious Workplace, Appendix I List of Disclosure Policies
	B2.1 Number and rate of work-related fatalities.	List of Quantitative Disclosures
	B2.2 Lost days due to work injury.	List of Quantitative Disclosures
	B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.	Creating a Harmonious Workplace
B3: Development and Training	General Disclosure	Nurturing Talents and Career Development
	B3.1 The percentage of employees trained by gender and employee category.	No disclosure has been made by the Group for the reporting period.
	B3.2 The average training hours completed per employee by gender and employee category.	Nurturing Talents and Career Development, List of Quantitative Disclosures
B4: Labour Standards	General Disclosure	Protection of Legitimate Rights and Interests
	B4.1 Description of measures to review employment practices to avoid child and forced labour.	Protection of Legitimate Rights and Interests
	B4.2 Description of steps taken to eliminate such practices when discovered.	In case of such event, the Group will act in accordance with the laws of the places where we operate to protect the interests of the parties to the greatest extent.
B5: Supply Chain Management	General Disclosure	Responsible Operation
	B5.1 Number of suppliers by geographical region.	No disclosure has been made by the Group for the reporting period.
	B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Responsible Operation

ESG KPI	Requirements	Chapter/Statement
B6: Product Responsibility	General Disclosure	Responsible Products and Services
	B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable
	B6.2 Number of products and service related complaints received and how they are dealt with.	No disclosure has been made by the Group for the reporting period.
	B6.3 Description of practices relating to observing and protecting intellectual property rights.	Responsible Operation
	B6.4 Description of quality assurance process and recall procedures.	Offering High-quality Products and Services, Responsible Operation
	B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.	Customers' Rights Protection
B7: Anti-corruption	General Disclosure	Responsible Operation
	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.	Responsible Operation
	B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Responsible Operation
B8: Community Investment	General Disclosure	Community Construction
	B8.1 Focus areas of contribution.	Community Construction
	B8.2 Resources contributed to the focus area.	Community Construction

Forgame