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Zengame Technology Holding Limited

禪遊科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2660)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors of Zengame Technology Holding Limited is pleased to announce the audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018.

FINANCIAL HIGHLIGHTS

	For the year ended		Year-on-Year Change*
	31 December 2019	2018	
	(RMB'000)	(RMB'000)	%
Revenue	662,100	554,950	19.3
Gross profit	324,953	247,077	31.5
Gross profit margin (%)	49.1	44.5	—
Profit for the period	160,519	108,809	47.5
Net profit margin (%)	24.2	19.6	—
Non-HKFRS adjusted net profit**	181,267	128,263	41.3
Earnings per Share (expressed in RMB per Share)	0.17	0.13	25.8
Dividend per Share (expressed in HKD per Share)	0.03	N/A	N/A

* Year-on-Year Change% represents a comparison between the current year and the last year.

** Non-HKFRS adjusted net profit was derived from the profit for the year excluding the Share-based payments and the Listing expenses.

OPERATIONAL HIGHLIGHTS

For the year ended 31 December

2019	2018
('000)	('000)

All Games

Cumulative registered players	728,067	442,262
MAU	48,538	35,875
DAU	7,486	6,426
MPU (Virtual items)	809	1,120
ARPPU of virtual items (RMB)	37	36

Card and Board Games

Cumulative registered players	548,099	340,368
MAU	38,696	25,309
DAU	6,768	5,594
MPU (Virtual items)	775	1,083
ARPPU of virtual items (RMB)	36	34

Other Games

Cumulative registered players	179,969	101,895
MAU	9,842	10,566
DAU	717	832
MPU (Virtual items)	33	37
ARPPU of virtual items (RMB)	61	70

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an established mobile game developer and operator in the PRC with special focus on card and board and other casual mobile games. Many of our games are based on well-established classic card and board games and they have been widely welcomed by the users. The Group generated income through the sales of virtual items and in-game information service*. In terms of revenue and active users, Fight the Landlord (鬥地主) and Mahjong (麻將) are the two most popular series of card and board mobile games we offer. They are based on real-world card and board games that have enjoyed wide popularity in the PRC for many years. In addition, we also offer casual games, such as Fingertips Xiaoxingxing (指尖消星星), Chengyu Qing Liubu (成語請留步) and Physical Pinball (物理彈球). Among those casual games, Fingertips Xiaoxingxing, a tile-matching casual game, entered the top 10 of the IOS free download games in China in December 2019 and topped the list on 11 December 2019. In 2019, we launched 26 new games, among which 25 are casual games and one is board game. Our games will be promoted on various PRC application platforms as well as overseas mainstream platforms such as Apple store, Huawei, Oppo, Vivo, Toutiao (頭條), Kuaishou (快手), iQIYI (愛奇藝), Qutoutiao (趣頭條) and Facebook, etc. As at 31 December 2019, we had 52 self-developed games and 16 third-party games, among which 19 are card games, 15 are board games and 34 are other casual games, respectively.

In terms of financial performance, we experienced a rapid growth in the year of 2019. Revenue increased from approximately RMB555.0 million for the year ended 31 December 2018 to approximately RMB662.1 million for the year ended 31 December 2019, representing an increase of approximately 19.3%. Our net profit increased from approximately RMB108.8 million for the year ended 31 December 2018 to approximately RMB160.5 million for the year ended 31 December 2019, representing an increase of approximately 47.5%. Our adjusted net profit, excluding the Share-based payments and the Listing expenses, increased from approximately RMB128.3 million for the year ended 31 December 2018 to approximately RMB181.3 million for the year ended 31 December 2019, representing an increase of approximately 41.3%.

* In order to accommodate the preferences from our players, we have further enriched the contents of our in-game advertisements, which mainly include providing links to commercial product websites and providing information video contents and short video clips. This has further improved the monetization ability of our in-game advertising. In order to better reflect the enriched contents of our in-game advertisements which we are offering, our Directors consider that it is more appropriate to name this segment as provision of in-game information service.

In terms of business development in the year of 2019, the Group optimized and enhanced the product experience of existing games, increased the player's activity and stickiness, and at the same time increased the number of new players by strengthening promotion efforts in expanding promotion channels such as Toutiao, Qutoutiao, Kuaishou and iQIYI. We had approximately 285.8 million new registered players for the year ended 31 December 2019. Our average MAU increased from approximately 35.9 million for the year ended 31 December 2018 to approximately 48.5 million for the year ended 31 December 2019. Our average DAU increased from approximately 6.4 million for the year ended 31 December 2018 to approximately 7.5 million for the year ended 31 December 2019. Our ARPPU of virtual items increase from approximately RMB36 for the year ended 31 December 2018 to approximately RMB37 for the year ended 31 December 2019. With our further optimization and improvement of our in-game information service strategy, our revenue generated from the in-game information service achieved a significant growth in 2019. Such growth was attributable to, on one hand, our continuous investment in technology and our continuous optimization of the capabilities in processing big data and advertisement software development kits, thereby optimizing the game traffic and enhancing our advertising monetization ability through intelligent switching of traffic, big data mining, and multiple innovative display forms such as incentive videos, banners, information flow and interactive advertisements. On the other hand, we have strengthened the cooperation on advertising monetization with well-known advertising platforms such as ByteDance and Tencent. In 2019, we also started cooperation with other advertising platforms including Huawei, Kuaishou and Baidu. In addition, we have also optimized and enriched our materials and continued to enhance the attractiveness of the advertisements in order to attract more users to watch the videos, click and download the commercial products. This has further improved the monetization ability of our in-game information service. As a result, for the year ended 31 December 2019, the Group's revenue from in-game information service amounted to approximately RMB307.0 million, representing a significant increase of approximately 316.7% from RMB73.7 million as compared with the year ended 31 December 2018.

In terms of the mobile game industry in the PRC, the overall development trend and atmosphere remained positive throughout the year, with a continuous growth in the number of players and the market scale. After the resumption of the approval process of game publication numbers by the PRC government, the Group has obtained five new game publication numbers in 2019, all of which were for casual games. As at 31 December 2019, we possessed 61 game publication numbers, 48 of which covering our card and board games and 13 of which covering our casual games. Due to the current development strategy and resources allocation, 14 games with publication numbers have not yet been in operation. The Group will start promoting their operations at any time as and when appropriate in the future. We have an adequate reserve in terms of game publication numbers, and are confident that we will continue to obtain new game publication numbers in the future.

The Shares have been successfully listed on the Main Board of the Stock Exchange since 16 April 2019. It was an important milestone for the Group's history, highlighting its competitive edge and capital strength. It also represents investors' recognition of our strategic development, financial performance and corporate governance, which will be the drivers of the Group's growth.

FUTURE PROSPECTS

In 2020, the Group will continue to move forward following its positive development trend in the year ended 31 December 2019. We will mainly focus on the following strategies in the year of 2020:

- Continuously optimizing the existing game portfolio, adding new features and gameplay rules, and enhancing players' experience;
- Strengthening the research and development of casual games, in particular hyper-casual games (超休閒遊戲), exploring opportunities in the PRC and overseas casual games markets and continuing to diversify our revenue;
- Conducting more precise cross-selling promotion and increasing players' scale by relying on big data analysis and using the existing large-scale player base, and establishing and improving our own advertising platform;
- Continuing to expand the mixed monetization mode of virtual items consumption and in-game information service, and increase our business cooperation with distribution channels and advertising platforms, thereby increasing our income scale;
- Pursuing opportunities to acquire or invest in other game developers or teams with mobile traffic foundations or promotional resources to strengthen our development of external cooperation.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group operated self-developed games and third-party games. All of the games used a Free-to-Play model and the Group generated revenue through the sales of virtual items and in-game information service.

Sales proceeds of virtual items were initially recorded as contract liabilities on our consolidated statement of financial position and were then recognized as revenue in accordance with our revenue recognition policies. Revenue collected from the paying players of third-party games and the in-game information service are shared between the

Group and the third-party game developers and the advertising platforms based on a pre-determined rate in accordance with the relevant agreements. The revenue generated from the sale of virtual items from third-party games and the in-game information service are both recognized on a net basis when the relevant services are provided.

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

	For the year ended 31 December				Year-on-Year Change
	2019		2018		
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>%</i>
Sales of virtual items	355,100	53.6	481,277	86.7	-26.2
— Self-developed games	342,748	51.8	475,778	85.7	-28.0
— Third-party games	12,352	1.8	5,499	1.0	124.6
In-game information service	307,000	46.4	73,673	13.3	316.7
Total	662,100	100.0	554,950	100.0	19.3

The following table sets forth a breakdown of our revenue by game category for the years indicated:

	For the year ended 31 December				Year-on-Year Change
	2019		2018		
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>%</i>
Card games	478,895	72.3	471,379	84.9	1.6
Board games	32,832	5.0	19,115	3.4	71.8
Other games	150,373	22.7	64,456	11.7	133.3
Total	662,100	100.0	554,950	100.0	19.3

For the year ended 31 December 2019, the Group's total revenue was approximately RMB662.1 million, representing an increase of approximately 19.3% from approximately RMB555.0 million as compared with the year ended 31 December 2018. This increase was primarily due to the significant increase in the revenue generated from the in-game information service which the Group began in May 2018.

For the year ended 31 December 2019, the Group's revenue from sale of virtue items amounted to approximately RMB355.1 million, representing a decrease of approximately 26.2% from RMB481.3 million as compared with the year ended 31 December 2018. On the other hand, for the year ended 31 December 2019, the Group's revenue from in-game information service amounted to approximately RMB307.0 million, representing an increase of approximately 316.7% from RMB73.7 million as compared with the year ended 31 December 2018. This was mainly due to (i) the change in the Group's revenue strategy by encouraging players, in particular non-paying players, to obtain game beans by watching in-game advertising videos or clicking the links of the commercial products instead of direct purchasing; and (ii) the further deepened strategy of the Group for the in-game information service business. The Group has increased its cooperation with more advertising platforms, thereby increasing the fill rate and the penetration rate of the advertisements.

Cost of Sales

The following table sets forth a breakdown of our cost of sales by nature for the years indicated:

	For the year ended		Year-on-Year Change %
	31 December 2019 (RMB'000)	2018 (RMB'000)	
Payment channel costs	81,165	104,877	-22.6
Distribution platform costs	121,175	192,629	-37.1
Information service costs	123,193	—	—
Others	11,614	10,367	12.0
Total	337,147	307,873	9.5

For the year ended 31 December 2019, the cost of sales was approximately RMB337.1 million, representing an increase of approximately 9.5% from approximately RMB307.9 million as compared with the year ended 31 December 2018. This was mainly attributable to the mix of (i) the decrease in payment channel cost of RMB23.7 million and distribution platform costs of RMB71.5 million caused by the decrease in the revenue from the sales of virtual items; and (ii) the increase in the information service costs of RMB123.2 million caused by the increase in the revenue from in-game information service. Information service costs are mainly the direct marketing costs corresponding to the in-game information service revenue. The amount of information service costs for the year ended 31 December 2018 was included in the selling and distribution expenses as the amount was insignificant.

Gross Profit and Gross Profit Margin

Gross profit increased by 31.5% from approximately RMB247.1 million for the year ended 31 December 2018 to approximately RMB325.0 million for the year ended 31 December 2019, which was in line with the growth of the Group's business. The gross profit margin increased to 49.1% for the year ended 31 December 2019 from 44.5% for the year ended 31 December 2018. The increase in our gross profit margin was primarily due to the significant increase in the revenue from in-game information service, where the margin is much higher than the revenue from the sale of virtue items.

The following table sets forth our gross profit and gross profit margin by business model:

	For the year ended 31 December			
	2019		2018	
	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %
Sales of virtual items				
— Self-developed games	128,794	37.6	167,905	35.3
— Third-party games	12,352	100.0	5,499	100.0
In-game information service	183,807	59.9	73,673	100.0
Total	324,953	49.1	247,077	44.5

Other Income

Other income increased by 64.8% from approximately RMB10.7 million for the year ended 31 December 2018 to approximately RMB17.6 million for the year ended 31 December 2019. The significant increase was primarily due to (i) the increase in bank interest income of approximately RMB3.7 million; (ii) the increase in government subsidy of approximately RMB2.1 million; and (iii) the increase in the super deduction for input VAT of approximately RMB1.5 million.

Selling and Distribution Expenses

Selling and distribution expenses increased from approximately RMB71.2 million for the year ended 31 December 2018 to approximately RMB80.9 million for the year ended 31 December 2019. This increase was primarily attributable to the increase in advertising and promotion costs for the purpose of expanding player base and promoting new games.

Administrative Expenses

Administrative expenses increased from approximately RMB35.6 million for the year ended 31 December 2018 to approximately RMB43.2 million for the year ended 31 December 2019, primarily due to (i) the increase in the Listing expenses, audit fees and professional parties consultation fees which amounted to approximately RMB5.1 million; (ii) the increase in staff welfare expenses which amounted to approximately RMB0.3 million; and (iii) the increase in the Share-based payment which amounted to approximately RMB0.7 million.

Research and Development Expenses

Research and development expenses increased from approximately RMB28.3 million for the year ended 31 December 2018 to approximately RMB38.3 for the year ended 31 December 2019. The increase was primarily due to (i) the increase in labor costs of approximately RMB9.1 million caused by the increase in the number of research and development staff and the adjustment of salary; and (ii) the cost amounting to approximately RMB1.2 million in engaging a third party to develop some casual games in order to improve development efficiency.

Other Expenses

Other expenses increased from approximately RMB1.2 million for the year ended 31 December 2018 to approximately RMB2.1 million for the year ended 31 December 2019, primarily due to the provision of impairment for trade receivables and donation expense related to the Listing.

Finance Costs

Finance costs decreased from approximately RMB0.5 million for the year ended 31 December 2018 to RMB0.4 million for the year ended 31 December 2019, as the relevant loan agreement expired in December 2018.

Income Tax Expense

The income tax expenses for the year ended 31 December 2019 was approximately RMB17.2 million, increased by 40.8% from approximately RMB12.2 million as compared with the year ended 31 December 2018. Such increase was mainly attributable to the increase in the taxable income.

Profit for the year ended 31 December 2019

As a result of the above factors, the net profit of the Group was approximately RMB160.5 million for the year ended 31 December 2019, an increase of approximately 47.5% as compared with RMB108.8 million for the year ended 31 December 2018.

Non-HKFRS Measures — Adjusted Net Profit

The adjusted net profit for the year ended 31 December 2019, adjusted by excluding the impact from one-off expenses in relation to the Listing and share-based compensation to key employees, was approximately RMB181.3 million, increased by 41.3% as compared to approximately RMB128.3 million for the year of 2018.

The following table sets out the adjusted net profit as well as the calculation process based on non-HKFRS for the years ended 31 December 2019 and 2018:

	For the year ended	
	31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	160,519	108,809
Add:		
Listing-related expenses	14,312	12,435
Share-based compensation	6,436	7,019
Adjusted net profit	<u>181,267</u>	<u>128,263</u>

Liquidity and Capital Resources

The Group's total bank balances and cash increased from approximately RMB11.1 million as at 31 December 2018 to approximately RMB293.5 million as at 31 December 2019. Such increase in total bank balances and cash during the year ended 31 December 2019 was primarily resulted from the increase in the net cash flow from operating activities and the net proceeds from the Listing.

As at 31 December 2019, current assets of the Group amounted to approximately RMB681.1 million, including bank balances and cash of approximately RMB293.5 million and other current assets of approximately RMB387.6 million. Current liabilities of the Group amounted to approximately RMB134.4 million, including trade payables and contract liabilities of approximately RMB87.3 million and other current liabilities of approximately RMB47.1 million. As at 31 December 2019, the current ratio (the current assets to current liabilities ratio) of the Group was 5.07, as compared with 3.7 as at 31 December 2018.

Gearing ratio is calculated by dividing total debt (being interest-bearing bank borrowings) by total equity. The Group does not have any bank borrowings and other debt financing obligations as at 31 December 2019 and the resulting gearing ratio is nil (31 December 2018: nil). The Group intends to finance the expansion, investments and business operations with internal resources.

Capital Expenditures

For the year ended 31 December 2019, the capital expenditures of the Group amounted to approximately RMB3.5 million, which were primarily used to purchase vehicles and office software, and for office decoration.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2019.

Pledge of Assets

As at 31 December 2019, the Group did not pledge any assets.

Future Plan for Material Investments and Capital Assets

Save as disclosed in this announcement, the Group did not have other plans for material investments and capital assets.

Significant Investments, Acquisitions and Disposals

Save as disclosed in this announcement, there were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for other material investments or additions of capital assets during the year ended 31 December 2019.

Foreign Exchange Risk Management

The functional currency of the Group is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
	Notes	RMB'000	RMB'000
REVENUE	4	662,100	554,950
Cost of sales		<u>(337,147)</u>	<u>(307,873)</u>
Gross profit		324,953	247,077
Other income and gains	4	17,638	10,704
Selling and distribution expenses		(80,893)	(71,183)
Administrative expenses		(43,210)	(35,618)
Research and development costs		(38,279)	(28,296)
Other expenses		(2,147)	(1,169)
Finance costs		<u>(350)</u>	<u>(495)</u>
PROFIT BEFORE TAX	5	177,712	121,020
Income tax expense	6	<u>(17,193)</u>	<u>(12,211)</u>
PROFIT FOR THE YEAR		160,519	108,809
Attributable to:			
Owners of the parent		<u>160,519</u>	<u>108,809</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT			
Basic	8	<u>RMB16.69 cents</u>	<u>RMB13.27 cents</u>
Diluted	8	<u>RMB16.69 cents</u>	<u>RMB13.27 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
PROFIT FOR THE YEAR		<u>160,519</u>	<u>108,809</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>8,408</u>	<u>(4)</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		<u>8,408</u>	<u>(4)</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Change in fair value	10	<u>11,602</u>	<u>(7,762)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		<u>20,010</u>	<u>(7,766)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>180,529</u>	<u>101,043</u>
Attributable to:			
Owners of the parent		<u>180,529</u>	<u>101,043</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

		2019	2018
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property and equipment		3,652	2,589
Investment in an associate		—	—
Intangible assets		334	—
Right-of-use assets	9	6,355	—
Equity instruments designated at fair value through other comprehensive income (“FVOCI”)	10	40,606	51,796
Long-term prepayments, deposits and other receivables		7,400	5,000
Deferred tax asset		546	459
Total non-current assets		58,893	59,844
CURRENT ASSETS			
Trade receivables	11	193,204	98,373
Contract costs	12	8,743	19,683
Financial assets at fair value through profit or loss	13	166,998	131,915
Prepayments, deposits and other receivables		18,648	13,515
Time deposits with original maturity of over three months		131,662	—
Cash and cash equivalents	14	161,843	11,052
Total current assets		681,098	274,538
CURRENT LIABILITIES			
Trade payables	15	71,731	17,080
Contract liabilities	16	15,558	30,305
Other payables and accruals	17	33,256	23,321
Lease liabilities	9	2,461	—
Tax payable		11,380	3,460
Total current liabilities		134,386	74,166
NET CURRENT ASSETS		546,712	200,372
TOTAL ASSETS LESS CURRENT LIABILITIES		605,605	260,216

		2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES			
Lease liabilities	9	4,080	—
Deferred tax liabilities		6,210	7,746
Total non-current liabilities		10,290	7,746
Net assets		595,315	252,470
EQUITY			
Equity attributable to owners of the parent			
Share capital	18	8,946	334
Reserves		586,369	252,136
Total equity		595,315	252,470

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 28 August 2018 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered address of the office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The Company and its subsidiaries are principally engaged in developing and operating mobile games in the People's Republic of China (hereafter, the "PRC") and investment business in the PRC. There has been no significant change in the Group's principal activities during the year ended 31 December 2019.

In the opinion of the directors, the controlling shareholders of the Company are Ye Sheng and Yang Min.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for wealth management products and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9
HKFRS 16

Amendments to HKAS 19

Amendments to HKAS 28

HK (IFRIC)-Int 23

*Annual improvements to HKFRSs 2015–2017
Cycle*

*Prepayment Features with Negative Compensation
Leases*

Plan Amendment, Curtailment or Settlement

Long-term Interests in Associates and Joint Ventures

Uncertainty over Income Tax Treatments

Amendments to HKFRS 3, HKFRS 11, HKAS 12 and
HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group’s financial statements, the nature and the impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less (“**short-term leases**”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

Financial impact at 1 January 2019

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	2,118
Increase in total assets	<u>2,118</u>
Liabilities	
Increase in lease liabilities	2,118
Increase in total liabilities	<u>2,118</u>
Decrease in retained earnings	<u>—</u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	<i>RMB'000</i>
Operating lease commitments as at 31 December 2018	2,174
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	56
Commitments relating to leases of low-value assets	—
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments as at 1 January 2019	—
Lease liabilities as at 1 January 2019	<u>2,118</u>

- (b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.
- (c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	Definition of a Business ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 17	Insurance Contracts ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in developing and operating mobile games.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

During the year, the Group operated within one geographical segment because all of its revenue was generated in the PRC and all of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

Revenue from a customer which amounted to more than 10% of the Group's revenue for the year ended 31 December 2019 is set out below:

	<i>RMB'000</i>
Customer A	114,113
Customer B	101,235

No revenue from services provided to a single customer amounted to 10% or more of the total revenue of the Group for the year ended 31 December 2018.

4. REVENUE, OTHER INCOME AND GAINS

Revenue from contracts with customers

(a) Disaggregated revenue information

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue:		
Type of goods or services		
Self-developed games	342,748	475,778
Third-party games	12,352	5,499
In-game information service	307,000	73,673
	<u>662,100</u>	<u>554,950</u>
Total revenue from contracts with customers	<u>662,100</u>	<u>554,950</u>
Timing of revenue recognition		
Services transferred over time	<u>662,100</u>	<u>554,950</u>

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Self-developed games	<u>30,305</u>	<u>42,278</u>

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Virtual items in self-developed games

The performance obligation from operation of self-developed games is satisfied over the estimated Player Relation Period as the customer simultaneously receives and consumes in-game virtual items provided by the entity's performance as the entity performs.

The distribution platforms collect the payment from the Paying Players and remit the cash to the Company net of commission charges which are pre-determined according to the relevant terms of the agreements entered into between the Group and distribution platforms or third party payment vendors. The payment is generally due within 30 to 90 days from the date of collecting the payment from the Paying Players.

Publishing service for third party games

The performance obligation is satisfied over time as the third-party game's developer simultaneously receives distribution services provided by the entity's performance as the entity performs. The payment is generally due within 30 to 90 days from the date of billing.

In-game information service

The performance obligation is satisfied over time as the advertiser simultaneously receives in-game information service provided by the entity's performance as the entity performs. The payment is generally due within 30 to 90 days from the date of billing.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	<u>15,558</u>	<u>30,305</u>

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

Other income and gains

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Dividend income from equity instruments designated at FVOCI	174	174
Bank interest income	3,751	58
Fair value gains or losses on financial assets at fair value through profit or loss	6,757	7,104
Government grants related to income*	4,872	2,712
Technology services	—	613
Super deduction for input VAT	1,542	—
Others	542	43
	17,638	10,704

* Various government grants have been received from local government authorities in the PRC. There are no unfulfilled conditions and other contingencies relating to these grants.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Services fee charged by distribution platforms and payment vendors		202,340	297,506
Promotion expenses		80,893	71,183
Employee benefit expense (excluding directors' and chief executives' remuneration):			
Wages and salaries		46,849	41,637
Pension scheme contributions (defined contribution scheme)		2,063	1,719
Equity-settled share-based payment expenses	19	6,436	7,019
Depreciation of property and equipment		1,703	987
Depreciation of right-of-use assets	9	2,384	—
Amortisation of intangible assets		266	—
Research and development costs		38,279	28,296
Minimum lease payments under operating leases		—	2,074
Impairment of trade receivables*	11	1,002	321
Auditors' remuneration		2,350	306
Listing expense		14,312	12,435

* The provision of impairment for trade receivables is included in other expenses in the consolidated statement of profit or loss.

6. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Zen Game was qualified as a “Key Software Enterprise” in November 2016 and the applicable tax rate was 10% for the years ended 31 December 2017 and 2018. Being qualified continually, Zen Game also applied the most preferential tax rate of 10% for the year ended 31 December 2019.

Pursuant to the PRC Enterprise Income Tax Law (“**EIT Law**”) and the respective regulations, the other PRC subsidiaries are subject to income tax at a statutory rate of 25% for the reporting periods.

Hong Kong profits tax have been provided at the rate of 16.5% on the Group’s assembled profit derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates.

The major components of the income tax expense for the years are as follows:

	2019 <i>RMB’000</i>	2018 <i>RMB’000</i>
Current tax		
Charge for the year	16,148	14,112
Deferred tax	(1,045)	(1,901)
	<u> </u>	<u> </u>
Total tax charge for the year	<u><u>17,193</u></u>	<u><u>12,211</u></u>

7. DIVIDENDS

	2019 <i>HKD’000</i>	2018 <i>HKD’000</i>
Interim – HK0.05 cent (2018: Nil) per ordinary share	51,082	—
Proposed final – HK0.03 cent (2018: Nil) per ordinary share	30,548	—
	<u> </u>	<u> </u>
	<u><u>81,630</u></u>	<u><u>—</u></u>

The proposed final dividend for the year is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue, during the year ended 31 December 2019.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share and diluted earnings per share for the year ended 31 December 2019 has been retrospectively adjusted for the effect of capitalisation issue as described more fully in note 18.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

The calculation of basic earnings per share is based on:

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	160,519	108,809
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	961,812,849	820,000,000

9. LEASES

The Group as a lessee

The Group has lease contracts for office buildings used for its operations. They generally have lease terms between 1 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	2019 RMB'000
At the beginning of the year	—
Additions	8,739
Depreciation charge	(2,384)
At the end of the year	<u>6,355</u>

(b) Lease liabilities

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

	2019 RMB'000
Carrying amount at 1 January	—
New leases	8,739
Accretion of interest recognised during the year	350
Payments	<u>(2,548)</u>
Carrying amount at 31 December	<u>6,541</u>
Analysed into:	
Current portion	2,461
Non current portion	<u>4,080</u>

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

	2019 RMB'000
Interest on lease liabilities	350
Depreciation charge of right-of-use assets	2,384
Total amount recognised in profit or loss	<u>2,734</u>

10. EQUITY INSTRUMENTS DESIGNATED AT FVOCI

	2019 RMB'000	2018 RMB'000
Listed equity investment:		
Genimous Technology Co., LTD. (“Zhidu Technology”)*	37,268	49,571
Non-listed equity investments:		
Shenzhen Flying Fish Interactive Technology Company Limited (“Flying Fish”)	488	725
Shenzhen Yiyou Technology Company Limited (“Yiyou”)	1,350	1,500
Shenzhen Yanque Technology Company Limited (“Yanque”)	<u>1,500</u>	<u>—</u>
	<u>40,606</u>	<u>51,796</u>

The above investments consist of investments in equity securities which were designated as equity instruments designated at FVOCI in financial assets.

In the years ended 31 December 2019 and 2018, the changes in the fair value and income tax effect in respect of the Group's equity instruments designated at FVOCI recognised in other comprehensive income are as below:

	2019 RMB'000	2018 <i>RMB'000</i>
The gross fair value change in respect of the Group's equity instruments designated at FVOCI recognised in other comprehensive income	15,168	(10,350)
Income tax effect	(3,566)	2,588
Changes in fair value on equity instruments designated at FVOCI	<u>11,602</u>	<u>(7,762)</u>

Equity instruments designated at FVOCI include investments in equity shares of listed and non-listed companies. The Group holds non-controlling interests (less than 10%) in these companies. These investments were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature.

* The listed equity investment represents the Group's shareholding in Zhidu Technology, a third party company listed on the Shenzhen Stock Exchange. In October 2019, the Group sold 3,760,562 shares of Zhidu Technology and the accumulated gain recognised in other comprehensive income of RMB13,810,000 was transferred to retained earnings.

11. TRADE RECEIVABLES

	2019 RMB'000	2018 <i>RMB'000</i>
Trade receivables	194,512	98,679
Provision for expected credit losses	(1,308)	(306)
	<u>193,204</u>	<u>98,373</u>

The Group's trade receivables primarily consist of those due from third-party distribution platforms and payment vendors who collected payment from Paying Players on behalf of the Group. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing and are generally on terms within 90 days.

An aging analysis of the trade receivables as at the end of each of the reporting periods, based on the recognition date of gross trade receivables and net of provision, is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 90 days	183,909	85,056
91 to 180 days	7,309	9,688
181 to 1 year	1,468	2,742
1 year to 2 years	518	887
	<u>193,204</u>	<u>98,373</u>

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk and days past due of the trade receivables to measure the expected credit losses. During the year, the expected losses rates are determined as follows:

31 December 2019	Amount <i>RMB'000</i>	Expected credit loss rate	Impairment <i>RMB'000</i>
Trade receivables aged:			
Within 1 year	193,304	0.32%	618
1 to 2 years	721	28.15%	203
2 to 3 years	487	100.00%	487
	<u>194,512</u>		<u>1,308</u>
31 December 2018	Amount <i>RMB'000</i>	Expected credit loss rate	Impairment <i>RMB'000</i>
Trade receivables aged:			
Within 1 year	97,747	0.27%	261
1 to 2 years	932	4.83%	45
	<u>98,679</u>		<u>306</u>

The movements in the allowance for expected credit losses of trade receivables are as follows:

	<i>Note</i>	2019 RMB'000	2018 <i>RMB'000</i>
At beginning of year		(306)	(1,328)
Provision for expected credit losses	6	(1,002)	(321)
Write-off		<u>—</u>	<u>1,343</u>
At the end of year		<u>(1,308)</u>	<u>(306)</u>

12. CONTRACT COSTS

Contract costs are mainly related to contract acquisition costs. Management expects that incremental relevant distribution service fees paid as a result of obtaining customer contracts are recoverable, which meet the contract acquisition cost criteria when the Group considers the Paying Player as its customers. The Group has therefore capitalised them as contract costs in the amounts of RMB19,683,000 and RMB8,743,000 as at 31 December 2018 and 2019, respectively.

Capitalised relevant service fees are amortised when the related revenue is recognised, which is consistent with the pattern of recognition of the associated revenue. The amounts of amortisation were RMB297,506,000 and RMB202,340,000 for the years ended 31 December 2018 and 2019 and there was no impairment loss in relation to the costs capitalised.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 <i>RMB'000</i>
Wealth management products issued by licensed banks, at fair value	<u>166,998</u>	<u>131,915</u>
	<u>166,998</u>	<u>131,915</u>

Wealth management products issued by several licensed banks were denominated in RMB, with expected rates of return ranging from 3.65% to 4.50% and 3.00% to 5.22% per annum for the years ended 31 December 2019 and 2018, respectively. The return on all these wealth management products is not guaranteed, and hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. None of these investments are past due. The fair values are based on cash flows discounted using the expected return based on management judgement and are within categorized level 2 of the fair value hierarchy.

14. CASH AND CASH EQUIVALENTS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Cash and bank balances	<u>161,843</u>	<u>11,052</u>
Denominated in:		
RMB	81,093	8,244
HK\$	80,277	2,552
US\$	473	256

The cash and bank balances of the Group denominated in RMB amounted to RMB81,093,000 (2018: RMB8,244,000) at the end of the reporting period. The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

15. TRADE PAYABLES

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 3 months	63,812	8,406
3 to 6 months	4,447	4,311
6 months to 1 year	2,316	4,085
1 year to 2 years	<u>1,156</u>	<u>278</u>
	<u>71,731</u>	<u>17,080</u>

The trade payable are non-interest-bearing and are normally settled on 180-day terms.

16. CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 2019 and 2018 and will be expected to be recognised within one year:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Self-developed games	<u>15,558</u>	<u>30,305</u>

Deferred online game revenue primarily consists of the unamortized revenue from sales of game beans and other virtual items for online games, where there is still an implied obligation to be provided by the Group.

17. OTHER PAYABLES AND ACCRUALS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Salary and welfare payables	21,677	18,071
Other tax payables	9,228	4,530
Other payables	2,351	720
	<u>33,256</u>	<u>23,321</u>

Other payables are non-interest-bearing and repayable on demand.

18. SHARE CAPITAL

Shares

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Authorized:		
50,000,000,000 ordinary shares of HK\$0.01 each as at 31 December 2019 (2018: 50,000,000,000 ordinary shares)	440,000	440,000
Issued and fully paid:		
1,018,274,000 ordinary shares as at 31 December 2019 (2018: 38,000,000 ordinary shares)	8,946	334

A summary of movements in the Company's share capital is as follows:

	<i>Notes</i>	Number of shares in issue	Share capital <i>RMB'000</i>
At 31 December 2018 and 1 January 2019		38,000,000	334
Capitalisation issue	(a)	782,000,000	6,882
Global offering (excluding shares issued under the over-allotment option)	(b)	180,000,000	1,540
Over-allotment	(c)	21,672,000	190
Repurchase shares	(d)	(3,398,000)	—
At 31 December 2019		<u>1,018,274,000</u>	<u>8,946</u>

- (a) 782,000,000 shares were allotted and issued to the shareholders of the Company immediately prior to the listing of the Company's shares on 16 April 2019 by way of capitalisation.

- (b) On 16 April 2019, the Company was listed on the Main Board of the Stock Exchange with the stock code 2660 and made an offering of 180,000,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK\$1.23 per share.
- (c) The over-allotment option was partially exercised and the Company allotted and issued 21,672,000 additional shares, representing approximately 12.04% of the total number of the offer shares initially available under the global offering, at HK\$1.23 per share on 15 May 2019.
- (d) In December 2019, 3,398,000 ordinary shares were repurchased but not yet cancelled by the Company.

19. SHARE-BASED PAYMENT

Hezhong Century Technology Company Limited (“**Hezhong**”) is a limited liability company controlled by Mr. Ye Sheng and Mr. Yang Min incorporated in the PRC since May 2012 and has become a shareholder of Zen Game since June 2012. Except for holding an equity interest in Zen Game, Hezhong did not conduct any other business. On 1 June 2016 and 1 June 2018, Hezhong granted 3,502,850 and 617,000 restricted shares units (“**RSUs**”), representing 2,980,300 underlying shares of and 5.52% equity interest in Zen Game to the senior management and key employees (“**Grantees**”) of the Group respectively to retain them for the continuing operation and development of the Group. The RSUs enabled the Grantees to indirectly entitle to the ownership of Zen Game through their respective equity interests in Hezhong.

The vesting period of the RSUs is determined to be two years with 50% each which will be vested at the end of each anniversary, or four years with 25% each which will be vested at the end of each anniversary, or six years with 10% each which will be vested at rear of the initial two anniversaries and 20% at the end of each of the following four anniversaries.

Movements during the year

Movements in the number of shares held for the Scheme and awarded shares for the years ended 31 December 2019 and 2018 are as follows:

	Number of shares held for the Share Award Scheme	Number of awarded shares	Total
At 1 January 2016	—	—	—
Granted	3,502,850	—	3,502,850
Awarded	—	—	—
At 31 December 2016	3,502,850	—	3,502,850
Awarded	(630,463)	630,463	—
At 31 December 2017	2,872,387	630,463	3,502,850
Granted	617,000	—	617,000
Awarded	(630,462)	630,462	—
At 31 December 2018	2,858,925	1,260,925	4,119,850
Awarded	(1,056,213)	1,056,213	—
At 31 December 2019	1,802,712	2,317,138	4,119,850

As part of the Restructuring, the Company issued shares to Hezhong Power Limited which is the nominee of trust and beneficially owned by the Grantees in exchange for controlling Hezhong's equity interest in Zen Game. The percentage of the equity interest held by Hezhong Power Limited in the Company is identical to the percentage of the equity interest in Zen Game indirectly held by the Grantees through Hezhong. There was no change in any other vesting conditions. There was no significant incremental value noted before and after the modification given the Zen Game has carried out substantially all of the businesses owned by the Group.

The expense recognised for employee services received during the year is shown in the following table:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Share-based payment expenses	<u>6,436</u>	<u>7,019</u>

The directors of the Company appointed an independent valuer, Value Link Group, to estimate the fair values of the above RSUs as at the respective grant dates.

SIGNIFICANT EVENTS AFTER THE YEAR END

In late 2019 and early 2020, there was an outbreak of an infectious respiratory disease named “COVID-19” by the World Health Organization, which is caused by a novel coronavirus. The PRC government has implemented various contingency measures and actions to prevent the spread of COVID-19 such as an extension of the Chinese New Year holiday, as well as travel and work restrictions in certain provinces and municipalities. The COVID-19 outbreak is expected to cause a great impact to the economic and business environment in the PRC. However, the Group’s operations and financial performance were not adversely affected during the year ended 31 December 2019 and up to the date of this announcement. On the contrary, the Group experienced a significant increase in both the revenue and the active users in January and February 2020 comparing to the corresponding period in the last year.

Save as the above, there were no significant events after 31 December 2019 and up to the date of this announcement.

USE OF PROCEEDS FROM THE LISTING

The net proceeds raised by the Company from the Listing are approximately HK\$206.5 million (after deduction of the underwriting commissions in respect of the offering and other estimated expenses). We have, and will continue to utilize the net proceeds from the Global Offering in accordance with the purposes set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 3 April 2019.

EMPLOYEE REMUNERATION AND RELATIONS

As at 31 December 2019, the Group had approximately 213 employees (177 as at 31 December 2018). As required by the PRC laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. Remuneration of the Group’s employees includes basic salaries, allowances, bonus, share options and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. The Group believes that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes during the year ended 31 December 2019.

PAYMENT OF FINAL DIVIDEND

Having taken into account the performance of the Group for the financial year ended 31 December 2019, the Board has resolved to recommend the payment of a final dividend of HK\$0.03 per Share for the year ended 31 December 2019 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 27 May 2020. The total amount is HK\$30.5 million. The proposed final dividend, subject to the approval of the Shareholders at the AGM, is expected to be paid on or before Friday, 19 June 2020.

The Company has adopted a dividend policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions, operational needs, capital requirements and factors as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year.

ANNUAL GENERAL MEETING

The AGM will be held on Monday, 18 May 2020. A notice convening the AGM will be published and despatched to the Shareholders in the manner required by the Listing Rules in due course.

CLOSURE OF THE REGISTER OF MEMBERS

In order to ascertain the Shareholders' entitlements to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 13 May 2020 to Monday, 18 May 2020, both days inclusive, during which period no transfer of Shares will be registered. All Share transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 12 May 2020.

In order to ascertain the Shareholders' entitlements to the proposed final dividend (subject to approval by the Shareholders at the AGM), the register of members of the Company will be closed from Monday, 25 May 2020 to Wednesday, 27 May 2020, both dates inclusive, during which period no transfer of shares will be registered. All Share transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 22 May 2020.

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Company has adopted the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules on the Stock Exchange as its own code of corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Corporate Governance Code throughout the period from the Listing Date to 31 December 2019, save for deviation from code provision A.2.1 of the Corporate Governance Code. The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance.

Mr. Ye is both the chairman of the Board and the chief executive officer of the Group. The Board believes that vesting the roles of both chairman of the Board and chief executive officer in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within the Group. The Group considers that the balance of power and authority of the present arrangement will not be impaired as the Board comprises five other experienced and high-calibre individuals including another executive Director, one non-executive Director and three independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of the Group, the Board will make consultations with appropriate Board committees and senior management. Therefore, the Directors consider that the present arrangement is beneficial to and in the interest of the Company and the Shareholders as a whole and the deviation from Code A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors in March 2019.

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding Directors' securities transactions throughout the period from the Listing Date to 31 December 2019.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three members, namely, Mr. Jin Shuhui, Mr. Mao Zhonghua and Mr. Yang Yi, all of whom are independent non-executive Directors. Mr. Jin Shuhui is the chairman of the Audit Committee.

The Audit Committee has reviewed the Company's consolidated annual results for the year ended 31 December 2019 and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The Audit Committee has also discussed the auditing, internal control and financial reporting matters.

The annual results for the year ended 31 December 2019 have been prepared in accordance with HKFRSs.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated balance sheet, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this annual results announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. Ernst & Young made no comments as to the reasonableness or appropriateness of those assumptions of the "Non-HKFRSs Measures" as presented in this annual results announcement. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this annual results announcement.

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

During the period from the Listing Date to 31 December 2019, the Company has repurchased a total of 3,398,000 Shares on the Stock Exchange and the details are set out below:

Date of Repurchase	Number of Shares Repurchased	Price Per Share		Aggregate Consideration
		Highest	Lowest	
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
18/12/2019	2,768,000	0.68	0.67	1,879,760.00
19/12/2019	230,000	0.67	0.67	154,100.00
20/12/2019	200,000	0.67	0.67	134,000.00
30/12/2019	200,000	0.72	0.72	144,000.00

As at 31 December 2019, 3,398,000 Shares were repurchased and to be cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the period from the Listing Date to 31 December 2019.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.zen-game.com>). The annual report for the year ended 31 December 2019 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the same websites in due course.

DEFINITIONS

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

“AGM”	the annual general meeting of the Company proposed to be held on Monday, 18 May 2020
“ARPPU”	monthly average revenue per paying user, which represents the revenue for the period divided by the number of paying players in such period, and then divided by the number of months in such period

“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors of the Company
“China” or “PRC”	the People’s Republic of China excluding for the purpose of this announcement, Hong Kong, Macau and Taiwan
“Company”	Zengame Technology Holding Limited (禪遊科技控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 28 August 2018
“Corporate Governance Code”	code on corporate governance practices contained in Appendix 14 to the Listing Rules
“DAU”	daily active users
“Director(s)”	the director(s) of the Company
“Free-to-Play”	a business model which players can play games for free, but may need to pay for virtual items sold in games to enhance their game experience
“Group”	collectively, the Company and its subsidiaries
“HK\$”, “HKD” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“HKFRS”	Hong Kong Financial Reporting Standards
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Date”	16 April 2019, the date on which the Shares were listed on the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“MAU”	monthly active users

“Model Code”	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules
“MPU”	monthly playing users
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“%”	per cent

By Order of the Board
Zengame Technology Holding Limited
Ye Sheng
Chairman

Hong Kong, 18 March 2020

As at the date of this announcement, the executive Directors are Mr. Ye Sheng and Mr. Yang Min, the non-executive Director is Ms. Fu Hao, and the independent non-executive Directors are Mr. Jin Shuhui, Mr. Mao Zhonghua and Mr. Yang Yi.