WANKA ONLINE INC.

萬咖壹聯有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1762)

FINANCIAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019 AND RESUMPTION OF TRADING

HIGHLIGHTS OF ANNUAL RESULTS

	Year ended 31 December		
	2019	2018	Change
	RMB'000	*RMB'000*	
Revenue	**2,396,187**	1,546,316	55.0%
Gross Profit	**338,215**	217,126	55.8%
Operating Profit	**175,776**	101,876	72.5%
Profit/(Loss) for the Year Attributable to Owners of the Parent	**105,734**	(421,541)	N/A
Adjusted EBITDA(1)	**246,443**	166,625	47.9%
Adjusted Net Profit(2)	**159,698**	126,978	25.8%

	As at 31 December		
	2019	2018	Change
	RMB'000	*RMB'000*	
Total Assets	**1,589,114**	1,312,934	21.0%
Total Liabilities	**553,639**	437,440	26.6%
Total Equity	**1,035,475**	875,494	18.3%
Current Ratio(3)	**2.5**	2.5	

Notes:

(1) Adjusted EBITDA eliminates the effect of depreciation, amortisation, finance cost, income tax, share-based payment expenses, listing expenses, loss on termination of convertible bonds, and fair value losses on convertible bonds, preferred shares and warrants.

(2) Adjusted net profit eliminates the effect of share-based payment expenses, listing expenses, loss on termination of convertible bonds, and fair value losses on convertible bonds, preferred shares and warrants.

(3) Current ratio was calculated based on our total current assets divided by our total current liabilities at the end of each financial period.

* *For identification purposes only*

The board (the "**Board**") of directors (the "**Directors**") of Wanka Online Inc. (the "**Company**", together with its subsidiaries and consolidated affiliated entities, the "**Group**") is pleased to announce the consolidated results of the Group for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") as below.

In this announcement, "we", "us", and "our" refer to the Company and where the context otherwise requires, the Group.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2019

	Notes	**2019**	2018
		RMB'000	*RMB'000*
REVENUE	*4*	**2,396,187**	1,546,316
Cost of sales		**(2,057,972)**	(1,329,190)
Gross profit		**338,215**	217,126
Other income and gains	*5*	**24,508**	11,661
Selling and distribution expenses		**(31,636)**	(16,729)
Research and development costs		**(45,419)**	(26,344)
Administrative expenses		**(49,789)**	(74,635)
Other expenses and losses		**(8,852)**	(1,084)
Share-based payment expenses		**(51,251)**	(8,119)
Operating profits		**175,776**	101,876
Finance costs	*7*	**(13,121)**	(6,216)
Loss on termination of convertible bonds		**–**	(14,270)
Fair value losses on convertible bonds		**–**	(3,202)
Fair value losses on preferred shares		**–**	(217,123)
Fair value losses on warrants		**–**	(261,791)
PROFIT/(LOSS) BEFORE TAX	*6*	**162,655**	(400,726)
Income tax expense	*8*	**(56,921)**	(20,815)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**105,734**	(421,541)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (expressed in RMB per share)	*10*		
Basic		**RMB0.09**	RMB(0.54)
Diluted		**RMB0.08**	RMB(0.54)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2019

	2019	2018
	RMB'000	RMB'000
PROFIT/(LOSS) FOR THE YEAR	**105,734**	(421,541)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**515**	4,658
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**515**	4,658
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company	**2,481**	(45,554)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	**2,481**	(45,554)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**2,996**	(40,896)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**108,730**	(462,437)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**956**	1,206
Right-of-use assets		**5,323**	–
Goodwill		**183,612**	183,612
Other intangible assets		**24,388**	37,321
Investment in an associate		**874**	–
Deferred tax assets		**4,596**	9,770
Prepayments		**–**	23,585
Total non-current assets		**219,749**	255,494
CURRENT ASSETS			
Accounts receivable	*11*	**597,485**	443,889
Prepayments, other receivables and other assets		**390,995**	275,798
Restricted cash	*12*	**119,515**	34,317
Cash and cash equivalents	*12*	**261,370**	303,436
Total current assets		**1,369,365**	1,057,440
CURRENT LIABILITIES			
Accounts payable	*13*	**94,936**	48,542
Other payables and accruals		**35,488**	53,548
Contract liabilities		**99,631**	147,043
Interest-bearing bank borrowings	*14*	**235,958**	146,000
Lease liabilities		**3,638**	–
Income tax payable		**77,445**	35,834
Total current liabilities		**547,096**	430,967
NET CURRENT ASSETS		**822,269**	626,473
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,042,018**	881,967
NON-CURRENT LIABILITIES			
Other payables		**500**	500
Lease liabilities		**1,564**	–
Deferred tax liabilities		**4,479**	5,973
Total non-current liabilities		**6,543**	6,473
Net assets		**1,035,475**	875,494

	2019	2018
	RMB'000	*RMB'000*
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**1**	1
Treasury shares	**–***	–*
Other reserves	**1,035,474**	875,493
Total equity	**1,035,475**	875,494

* The amount is less than RMB1,000.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2019

	Note	Issued capital *RMB'000*	Treasury shares *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Employee share-based compensation reserve *RMB'000*	Statutory reserve funds *RMB'000*	Exchange fluctuation reserve *RMB'000*	Accumulated losses *RMB'000*	Total equity *RMB'000*
At 1 January 2018		–#	–	37,933	13,166	30,665	1,127	8,177	(263,540)	(172,472)
Loss for the year		–	–	–	–	–	–	–	(421,541)	(421,541)
Other comprehensive loss for the year:										
Exchange differences		–	–	–	–	–	–	(40,896)	–	(40,896)
Total comprehensive loss for the year		–	–	–	–	–	–	(40,896)	(421,541)	(462,437)
Issue of shares		1	–#	1,505,917	(3,634)	–	–	–	–	1,502,284
Appropriation to statutory reserve fund		–	–	–	–	–	16,173	–	(16,173)	–
Equity-settled share option arrangements		–	–	–	–	8,119	–	–	–	8,119
At 31 December 2018		1	–#	1,543,850	9,532	38,784	17,300	(32,719)	(701,254)	875,494

The amount is less than RMB1,000.

	Note	Issued capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Capital reserve RMB'000	Employee share-based compensation reserve RMB'000	Statutory reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2019		1	–#	1,543,850	9,532	38,784	17,300	(32,719)	(701,254)	875,494
Profit for the year		–	–	–	–	–	–	–	105,734	105,734
Other comprehensive income for the year:										
Exchange differences		–	–	–	–	–	–	2,996	–	2,996
Total comprehensive income for the year		–	–	–	–	–	–	2,996	105,734	108,730
Appropriation to statutory reserve fund		–	–	–	–	–	3,192	–	(3,192)	–
Equity-settled share option arrangements		–	–	–	–	51,251	–	–	–	51,251
At 31 December 2019		1	–#	1,543,850*	9,532*	90,035*	20,492*	(29,723)*	(598,712)*	1,035,475

The amount is less than RMB1,000.

* These reserve accounts comprise the consolidated other reserves of RMB1,035,474,000 (2018: RMB875,493,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax			
Adjustments for:		**162,655**	(400,726)
Foreign exchange losses/(gains), net	*6*	**2,681**	(1,641)
Finance costs	*7*	**13,121**	6,216
Bank interest income	*5*	**(4,335)**	(110)
Investment income	*5*	**–**	(161)
Loss on disposal of items of property, plant and equipment	*6*	**1**	–
Impairment of accounts receivable	*6*	**5,960**	134
Depreciation of property, plant and equipment		**708**	859
Depreciation of right-of-use assets		**3,062**	–
Amortisation of intangible assets		**12,933**	11,757
Share-based payment expenses		**51,251**	8,119
Fair value losses on preferred shares		**–**	217,123
Fair value losses on warrants		**–**	261,791
Fair value losses on convertible bonds		**–**	3,202
Loss on termination of convertible bonds		**–**	14,270
Listing expense	*6*	**2,713**	44,014
		250,750	164,847
Increase in accounts receivable		**(159,556)**	(224,324)
Increase in prepayments, other receivables and other assets		**(112,260)**	(166,237)
Decrease/(increase) in long-term prepayments		**23,585**	(4,717)
Increase/(decrease) in accounts payable		**46,394**	(12,231)
Increase/(decrease) in contract liabilities		**(47,412)**	134,741
Increase/(decrease) in other payables and accruals		**15,736**	(24,371)
Cash generated from/(used in) operations		**17,237**	(132,292)
Interest received		**1,397**	110
Income tax paid		**(11,630)**	(3,243)
Net cash flows from/(used in) operating activities		**7,004**	(135,425)

	2019	2018
	RMB'000	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments income	**–**	161
Purchase of financial assets at fair value through profit or loss	**–**	(5,000)
Redemption of financial assets at fair value through profit or loss	**–**	5,000
Purchase of items of property, plant and equipment	**(518)**	(176)
Purchase of items of intangible assets	**–**	(175)
Purchase of a shareholding in an associate	**(874)**	–
Acquisition of subsidiaries	**–**	20,377
Net cash flows from/(used in) investing activities	**(1,392)**	20,187
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of bank loans	**301,400**	154,000
Repayment of bank loans	**(211,000)**	(18,000)
Capital injection from shareholders	**–**	64,524
Proceeds from issuance of convertible bonds	**–**	20,000
Proceeds from initial public offering	**–**	239,130
Listing expenses paid	**(36,265)**	(38,897)
Repayment of convertible bonds	**–**	(61,195)
Proceeds from issuance of preferred shares	**–**	93,695
Principal portion of lease payments	**(3,808)**	–
Interest paid	**(13,122)**	(4,451)
Loans from employees	**–**	600
Repayment of loans due to employees	**–**	(4,080)
Dividend paid	**–**	(11,301)
Increase in restricted cash	**(85,198)**	(34,397)
Net cash flows from/(used in) financing activities	**(47,993)**	399,628

	2019	2018
	RMB'000	*RMB'000*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(42,381)**	284,390
Cash and cash equivalents at beginning of year	**303,436**	11,490
Net foreign exchange difference	**315**	7,556
CASH AND CASH EQUIVALENTS AT END OF YEAR	**261,370**	303,436
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**261,370**	303,436
Cash and cash equivalents as stated in the consolidated statement of financial position and statement of cash flows	**261,370**	303,436

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Wanka Online Inc. (the "Company") is a limited liability company incorporated in the Cayman Islands on 7 November 2014. Its registered office address is Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company, together with its subsidiaries, is collectively referred to as the Group.

Prior to November 2014, the offshore structure was held by the Company's predecessor, Wanka Inc., a company incorporated in the Cayman Islands on 20 May 2014. On 7 November 2014, the Company entered into a letter agreement with Wanka Inc., pursuant to which all the shares of Wanka Holdings Limited, a company set up in Hong Kong by Wanka Inc., would be transferred from Wanka Inc. to the Company for a consideration of HK$1.0. The transfer was completed on 28 November 2014 and since then, the Company has been the holding company of the Group.

During the year, the Company and its subsidiaries, including controlled structured entities, were mainly involved in the mobile advertising services, online-video distribution services and game co-publishing services.

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. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The following new and revised HKFRSs became effective for the accounting period commencing from 1 January 2019:

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. 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.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method 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 recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued 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 office premises. 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).

Impact 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. 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 impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB$'000*
Assets	
Increase in right-of-use assets	6,210
Increase in total assets	6,210
Liabilities	
Increase in lease liabilities	6,512
Decrease in other payables and accruals	(302)
Increase in total liabilities	6,210
Increase in retained profits	–
Increase in non-controlling interests	–

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

	RMB$'000
Operating lease commitments as at 31 December 2018	9,317
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(2,241)
Commitments relating to leases of low-value assets	(24)
	7,052
Weighted average incremental borrowing rate as at 1 January 2019	5.49%
Discounted operating lease commitments as at 1 January 2019	6,512
Lease liabilities as at 1 January 2019	6,512

(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 did not have any long-term interests in associates and joint ventures as at 1 January 2019 and 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 (i) the transfer pricing on its intergroup sales and (ii) the offshore position on its sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy and offshore position 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. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

4. OPERATING SEGMENT INFORMATION

The segment revenue for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
	RMB'000	*RMB'000*
Type of goods or services Mobile advertising services	**2,276,362**	1,443,338
Online-video distribution services	**101,636**	67,442
Game co-publishing services	**18,189**	10,459
Others	**–**	25,077
Total revenue form contracts with customers	**2,396,187**	1,546,316
Timing of revenue recognition		
Services transferred at a point in time	**–**	21,698
Services transferred over time	**2,396,187**	1,524,618
Total revenue from contracts with customers	**2,396,187**	1,546,316

The segment results for the year ended 31 December 2019 are as follows:

	Mobile advertising services	**Online-video distribution services**	**Game co-publishing services**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue	**2,276,362**	**101,636**	**18,189**	**2,396,187**
Segment cost of sales	**1,966,538**	**51,105**	**9,231**	**2,026,874**
Segment result	**309,824**	**50,531**	**8,958**	**369,313**

The segment results for the year ended 31 December 2018 are as follows:

	Mobile advertising services	Online-video distribution services	Game co-publishing services	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	1,443,338	67,442	10,459	25,077	1,546,316
Segment cost of sales	1,264,739	36,324	7,358	284	1,308,705
Segment result	178,599	31,118	3,101	24,793	237,611

The major customers which contributed more than 10% of the total revenue for the years ended 31 December 2019 and 2018 are listed as below:

	2019	2018
	RMB'000	*RMB'000*
Mobile advertising services:		
Customer A	–	162,527
Online-video distribution services:	–	–
Game co-publishing services:	–	–
Others	–	–

Notes:

– represents no customer contributed more than 10% of the total revenue for that year.

The Group mainly operates in Mainland China and earns substantially all of the revenue from external customers located in the Mainland China.

As at 31 December 2019 and 2018, substantially all of the non-current assets of the Group were located in Mainland China.

5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	2019	2018
	RMB'000	*RMB'000*
Other income and gains		
Conference service income, net	**436**	3,953
Bank interest income	**4,335**	110
Investment income	**–**	161
Government grants*	**8,592**	5,652
Foreign exchange gain, net	**–**	1,641
Additional deduction of input value-added tax	**10,418**	–
Others	**727**	144
	24,508	11,661

* Certain government grants have been received mainly for initial public offerings support award and investment award in local area. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	**2019** **RMB'000**	2018 *RMB'000*
Cost of services, net of purchase rebate		**2,026,874**	1,308,705
Depreciation and amortisation		**16,703**	12,616
Auditor's remuneration		**2,220**	1,750
Minimum lease payments under operating leases		**–**	3,721
Lease payments not included in the measurement of lease liabilities		**2,423**	–
Listing expenses#		**2,713**	44,014
Employee benefit expenses (excluding directors' and chief executive's remuneration)^:			
Wages and salaries		**67,016**	36,128
Pension scheme contributions^^		**8,019**	5,575
Share-based payment expenses		**51,251**	8,119
		126,286	49,822
Fair value losses on preferred shares		**–**	217,123
Fair value losses on warrants		**–**	261,791
Fair value losses on convertible bonds		**–**	3,202
Loss on termination of convertible bonds		**–**	14,270
Impairment of accounts receivable*	*11*	**5,960**	134
Foreign exchange losses/(gains), net*		**2,681**	(1,641)
Loss on disposal of items of property, plant and equipment		**1**	–

* Impairment of accounts receivable and foreign exchange losses are included in "Other expenses and losses" in the consolidated statement of profit or loss, foreign exchange gains are included in "Other income and gains" in the consolidated statement of profit or loss.

^ Employee benefit expense excluding share-based payment expense are included in "Cost of sales", "Selling and distribution expenses", "Research and development costs" and "Administrative expenses" in the consolidated statement of profit or loss.

^^ At 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes of future years (2018: Nil).

\# It represents listing expenses that are charged to "Administrative expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 **RMB'000**	2018 *RMB'000*
Interest expenses		
– Bank borrowings	**12,798**	4,346
– Loans from employees	**–**	242
– Convertible bonds	**–**	1,628
Interest on lease liabilities	**323**	–
	13,121	6,216

8. INCOME TAX

The Company is incorporated under the law of the Cayman Islands and is not subject to the Cayman Islands income tax.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2019 and 2018. The income tax expenses of the Group for the years ended 31 December 2019 and 2018 represented current tax expenses related to the Group's operations in Mainland China and deferred tax.

The income tax provision of the Group in respect of its operations in Mainland China was calculated at the tax rate of 25% on the estimated assessable profits for the periods, if applicable, based on the existing legislation, interpretations and practice in respect thereof, for except one PRC subsidiary which is entitled to a preferential tax rate of 15% for three years as it is qualified as a "new high technology enterprise".

	2019	2018
	RMB'000	*RMB'000*
Current – Mainland China	**53,241**	31,736
Deferred	**3,680**	(10,921)
Total tax charge for the year	**56,921**	20,815

9. DIVIDENDS

No dividends have been paid or declared by the Company during the year ended 31 December 2019 (2018: nil).

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

The calculation of the basic earning/(loss) per share amount is based on the profit/(loss) for the year attributable to owners of the parent, and the weighted average number of ordinary shares of 1,210,716,350 (2018: 777,848,095) in issue excluding the treasury shares during the year.

Diluted earning/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As the Group incurred losses for the year ended 31 December 2018, the potential ordinary shares were not included in the calculation of diluted loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share amount for the year ended 31 December 2018 is the same as basic loss per share amount.

The calculations of basic and diluted earning/(loss) per share are based on:

	2019	2018
Earnings/(loss)		
Profit/(loss) for the year attributable to owners of the parent used in the basic and diluted earnings/(loss) per share calculation (RMB'000)	**105,734**	(421,541)
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation	**1,210,716,350**	777,848,095
Effect of dilution - weighted average number of ordinary shares:		
Restricted share units	**59,504,829**	–
	1,270,221,179	777,848,095

11. ACCOUNTS RECEIVABLE

	2019	2018
	RMB'000	*RMB'000*
Accounts receivable	**603,579**	444,023
Impairment	**(6,094)**	(134)
Total	**597,485**	443,889

The Group's trading terms with its customers are partially on credit. For some customers, payments in advance are normally required. For mobile advertising and game co-publishing business, the credit period generally ranges from one to three months for major customers. For online-video distribution, the credit period generally ranges from three to twelve months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. As at 31 December 2019, the Group had certain concentrations of credit risk as 36% (2018: 27%) of the Group's accounts receivable were due from the Group's five largest customers, respectively. In view of the aforementioned and the fact that these customers have a good track record with the Group based on past experience and no significant changes in credit quality are noted, the directors of the Company are of the opinion that there are no significant credit risks on the balances. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

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

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**495,766**	420,469
3 to 12 months	**73,573**	15,739
1 to 2 years	**27,816**	7,649
2 to 3 years	**330**	32
	597,485	443,889

The movements in the loss allowance for impairment of accounts receivable are as follows:

	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**134**	–
Impairment losses, net *(note 6)*	**5,960**	134
At end of year	**6,094**	134

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 *RMB'000*	2018 *RMB'000*
Cash and bank balances	**253,791**	197,508
Short term time deposits	**127,094**	140,245
	380,885	337,753
Less: Restricted cash:		
Pledged time deposits for bank loans (note 14)	**(118,595)**	(34,317)
Bank deposits frozen by litigation	**(920)**	-
Cash and cash equivalents	**261,370**	303,436
Denominated in:		
– RMB	**234,438**	79,908
– USD	**26,910**	1,309
– HKD	**22**	222,219
	261,370	303,436

RMB is not freely convertible into other currencies. However, under Mainland China's prevailing rules and regulations over foreign exchange, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

13. ACCOUNTS PAYABLE

An aged analysis of the Group's accounts payable at the end of the reporting period, based on the invoice date, is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Within 1 year	**84,924**	48,318
1 to 2 years	**9,972**	224
More than 2 years	**40**	–
	94,936	48,542

The accounts payable are non-interest-bearing and are normally settled on terms of 60 to 90 days.

14. INTEREST-BEARING BANK BORROWINGS

Details of the Group's interest-bearing bank borrowings as at 31 December 2019 and 2018 are as follows:

	As at 31 December 2019		
	Effective contractual interest rate (%)	**Maturity**	***RMB'000***
Current			
Bank loans – secured	**3.830-4.900**	**2020**	**105,958**
– unsecured	**4.350-5.160**	**2020**	**130,000**
			235,958

	As at 31 December 2018		
	Effective contractual interest rate (%)	Maturity	*RMB'000*
Current			
Bank loans – secured	5.220	2019	30,000
– unsecured	5.220-8.000	2019	116,000
			146,000

	2019	2018
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**235,958**	146,000
	235,958	146,000

Notes:

(a) As at 31 December 2018, the Group's bank loans of (i) RMB30,000,000 were secured by pledged deposits of US$5,000,100 (equivalent to approximately RMB34,317,000) provided by a subsidiary of the Company, Wanka Holdings Limited ("Wanka Holdings"); (ii) RMB20,000,000 were guaranteed by an independent third party, Beijing Zhongguancun Sci-tech Financing Guaranty Co., Ltd., and (iii) RMB20,000,000 were guaranteed by an independent third party, Beijing Culture & Technology Financing Guaranty Co., Ltd.

(b) As at 31 December 2019, the Group's bank loans of

(i) RMB105,958,000 was secured by pledged deposits of US$16,999,973 (equivalent to approximately RMB118,595,000) provided by Wanka Holdings;

(ii) RMB30,000,000 was guaranteed by the Company and two subsidiaries of the Company, namely, Wanka Holdings and Wanka Huanju Culture Media (Beijing) Co., Ltd.;

(iii) RMB45,000,000 was guaranteed by the Company, Mr. GAO Dinan ("Mr. Gao") and Mr. ZHENG Wei ("Mr. Zheng") (both Mr. Gao and Mr. Zheng are executive directors of the Company);

(iv) RMB15,000,000 was guaranteed by Mr. Gao and two subsidiaries of the Company, namely, Wanka Huanju Culture Media (Beijing) Co., Ltd. and Huanju Shidai Culture Media (Beijing) Co., Ltd.;

(v) RMB20,000,000 was guaranteed by an independent third party, Beijing Zhongguancun Sci-tech Financing Guaranty Co., Ltd.;

(vi) RMB5,000,000 was guaranteed by Mr. Gao and an independent third party, Beijing Zhongguancun Sci-tech Financing Guaranty Co., Ltd.;

(vii) RMB10,000,000 was guaranteed by an independent third party, Beijing Haidian Tech-Enterprise Financing Guarantee Co. Ltd.; and

(viii) RMB5,000,000 was guaranteed by Mr. Gao and an independent third party, Beijing Capital Financing Guarantee Co. Ltd.

15. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

16. CAPITAL COMMITMENTS

At the end of the reporting period, the Group did not have any significant capital commitments.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on minimising potential adverse effects of these risks, with material impact, on the Group's financial performance. The board of directors reviews and agrees policies for managing each of these risks.

18. EVENTS AFTER THE REPORTING PERIOD

(i) On 7 January 2020, the Company and Xin Point Holdings Limited (the "Subscriber"), a Cayman Island company listed on the main board of the Stock Exchange entered to a subscription agreement, pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 25,789,000 ordinary shares at a subscription price of HK$1.90 per Subscription Share (the "Subscription"). The Subscription was completed on 20 January 2020. For further details, please refer to the related announcement of the Company dated 7 January 2020 and 20 January 2020.

(ii) On 24 March 2020, the board of directors of the Company resolved and approved to grant 21,013,000 restricted share units (the "RSU(s)") to 29 grantees (the "Grantees") pursuant to the restricted share unit scheme adopted on 29 August 2019, subject to acceptance by the Grantees (the "Grant"). The RSUs granted typically shall vest annually on an equal basis within four years from the date of grant in accordance with the vesting schedule determined by the board of directors of the Company upon all vesting conditions having been satisfied. For further details of the Grant, please refer to the related announcement of the Company dated 25 March 2020.

BUSINESS REVIEW

In 2019, we continued to deepen our collaboration with the smartphone manufacturers in the People's Republic of China (the "**PRC**"), and strengthen our leading position in the Android-based ecosystem in China. We have also seized opportunities and collaborated with Chinese smartphone manufacturers to expand our business into the overseas Android-based ecosystem market. Our business has enjoyed the benefits brought by the economies of scale. The number of mobile apps and mobile games we advertised increased from 3,869 in 2018 to 5,901 in 2019. Our revenues from mobile advertising in 2019 was RMB2,276.4 million, representing a year-on-year increase of 57.7%. Revenues from our online-video distribution and game co-publishing in 2019 was RMB101.6 million and RMB18.2 million, respectively representing a year-on-year increase of 50.7% and 73.9%, respectively. In 2019, we achieved net profit of RMB105.7 million for the first time, as compared to the net loss of RMB421.5 million in 2018.

In 2019, we initiated and implemented our 5G technology strategy, enabling our DAPG platform to smoothly transit from the 4G era to the 5G era, the era of the Internet of Everything. As a new form for lightweight applications which allow instant use without downloading anything, we believe that Quick App will lead to disruptive changes in the 5G era. We have also actively expanded the applications of Quick App technology in a more diverse, online and offline scenarios including near-field communication services. Meanwhile, we have continued to shore up our own technical strengths, and improve our capability to process big data on our DAPG platform at full speed. Leveraging our advanced data analysis technologies and algorithms, in 2019, we have further optimized the intelligent recommendation technology of our Data AI Platform Group (the "**DAPG**") platform. Furthermore, we have enhanced our platform as a service (PaaS) capability, and have extended the applications of our advanced technologies to other innovative areas, including the Internet of Things.

We successfully held the Quick App Developer Conference (快應用開發者大會) in March 2019, and welcomed two new members, Hisense and China Mobile, to join the Quick App Alliance (the "**QAA**"), a network of major Android smartphone manufacturers to develop the Quick Apps, connecting a larger user base to our online and offline services. Currently, the QAA pursued various forms of cooperation with numerous industries, empowering the offline retail industry with a wide spectrum of functions such as expand applications in various scenarios, enhance conversion efficiency, and enable accurate targeted coverage. Additionally, the QAA established close cooperation with a number of game engine companies to develop the quick game technology, reducing the development and access costs of game developers. As of December 2019, the number of monthly active Quick App devices exceeded 300 million units, representing an increase of nearly two times as compared with that as of December 2018.

BUSINESS OUTLOOK

Looking forward, we will further deepen our cooperation with the Android-based ecosystem participants and diversify our service portfolio to create more meaningful and attractive value-added potential for Android-based ecosystem participants. We believe that diversified development in vertical fields will bring new growth drivers to our business, proved by our strategic investments in a fintech company in September 2019. We will utilize our leading technical and industrial strengths to empower promising industries. Furthermore, we will focus on enhancing our technical capabilities, and to a greater extent, we will, together with smartphone manufacturers in the PRC, further expand the global user base in enormous overseas markets leveraging our technology when exploring the synergy between the Quick Apps and 5G technology.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues

Our revenues from mobile advertising increased significantly from RMB1,443.3 million in 2018 to RMB2,276.4 million in 2019, due to the increase in the number of mobile apps and mobile games we advertised. As we continued to enhance our business relationships with smartphone manufacturers and other suppliers of distribution channels, we were able to expand the number of mobile apps and mobile games we advertised from 3,869 in 2018 to 5,901 in 2019.

In addition, we generated revenues from our online-video distribution services and game co-publishing services of RMB101.6 million (2018: RMB67.4 million) and RMB18.2 million (2018: RMB10.5 million), respectively.

The following table sets forth the comparative figures for the periods indicated.

	Year ended 31 December			
	2019		2018	
	RMB'000	***% of total revenues***	*RMB'000*	*% of total revenues*
Revenues				
Mobile advertising	**2,276,362**	**95.0%**	1,443,338	93.3%
Online-video distribution	**101,636**	**4.2%**	67,442	4.4%
Game co-publishing	**18,189**	**0.8%**	10,459	0.7%
Others*	**–**	**–%**	25,077	1.6%
Total	**2,396,187**	**100%**	1,546,316	100%

* Includes revenue from IT development related services

Mobile Advertising Services

We generated revenues by distributing advertisements of marketers' mobile apps and mobile games in the distribution channels of our Mobile Hardcore Alliance (the "**MHA**") members consisting of seven Android smartphone manufacturers in China, non-MHA smartphone manufacturers and non-smartphone manufacturer distribution channel suppliers. We also offered a variety of advertising formats across our distribution channels, including app store search ads, in-feed ads, banner ads, interstitial ads and splash screen ads, to suit our customers' specific needs. The following table sets forth a breakdown of our advertising revenue by source for the periods indicated:

	Year ended 31 December			
	2019		2018	
	RMB'000	***% of total revenues***	*RMB'000*	*% of total revenues*
Mobile game distribution	**1,710,803**	**75.2%**	1,005,630	69.7%
Mobile app distribution	**565,559**	**24.8%**	437,708	30.3%
Total	**2,276,362**	**100%**	1,443,338	100%

Our mobile advertising revenues from mobile game distribution increased significantly from RMB1,005.6 million in 2018 to RMB1,710.8 million in 2019, representing an increase of RMB705.2 million, or 70.1% from 2018. The revenues increased primarily because we expanded the number of mobile games we marketed and obtained new mobile game distribution channels from smartphone manufacturers, especially from the MHA members. Our mobile advertising revenues from mobile app distribution increased from RMB437.7 million in 2018 to RMB565.6 million in 2019, representing an increase of RMB127.9 million, or 29.2% from 2018, primarily because we had been actively expanding our advertisement distribution channels for mobile apps and increased the number of mobile apps we marketed.

Online-video Distribution Services

Leveraging our success and experience in providing advertising services, we have expanded into additional business verticals and begun establishing our online-video distribution network to unleash new monetisation opportunities since 2018.

With our stable relationships with suppliers of content distribution channels and smartphone manufacturers, especially the MHA members, we integrated the operational know-hows and experience in the field of online-video distribution, and expanded our service offerings to a broader range of marketers.

We generated a revenue of RMB101.6 million for this business line in 2019, representing an increase of RMB34.2 million, or 50.7% from 2018. The videos we distributed are mainly in the areas of finance, entertainment and movies.

Game Co-publishing Services

We offer one-stop game co-publishing services to game developers, which include game optimisation, marketing, promotion, distribution, monetisation and other user-related services. Leveraging our extensive experience in game co-publishing, amassed data volume and technical know-how, we actively identified and sourced new game content as well as optimised existing game content based on our in-depth understanding of user profiles, preferences, tastes, and playing habits. Moreover, based on our close relationship with various smartphone-based distribution channels, we allocated game marketing and promotion resources more efficiently and effectively, with insights into the effect of timing of offer and type of virtual items based on user behavior and in-game spending.

Our revenues from game co-publishing services increased by 73.3% from RMB10.5 million in 2018 to RMB18.2 million in 2019 as we continued to expand our business. As at 31 December 2019, we had co-published the following 19 mobile games in China.

Title	Android-based operation platform	Genre	Initial launch time
A Legend Comes (傳奇來了)	Mobile	Role-playing game	January 2018
The Travel Fairies (神遊記)	Mobile	Role-playing game	May 2018
Time Illusions (時光幻境)	Mobile	Role-playing game	May 2018
Armor Girls of the Caribbean (加勒比海戰姬)	Mobile	Simulation game	June 2018
March! Three Kingdoms (進擊吧!三國)	Mobile	Role-playing game	July 2018
Mobile Three Kingdoms (掌中三國)	Mobile	Card game	October 2018
Battle Hymn of the Dragon City (龍城戰歌)	Mobile	Role-playing game	October 2018
Righteous Ardor (熱血合擊)	Mobile	Role-playing game	December 2018
Martial World Conquest (橫掃天下)	Mobile	Role-playing game	December 2018
Fairy Realm (修真界)	Mobile	Role-playing game	December 2018
Zealous Monkey King (瘋狂的悟空)	Mobile	Role-playing game	December 2018
Journey to the West Runner (跑跑西遊記)	Mobile	Role-playing game	December 2018
The Rise of the God of War (戰神崛起)	Mobile	Role-playing game	March 2019
Star and Moon's Wheel of Fortune (星月命運之輪)	Mobile	Role-playing game	May 2019
The Croods(瘋狂原始人)	Mobile	Role-playing game	July 2019
One Punch Man(一拳超人)	Mobile	Role-playing game	July 2019
BLEACH: Battle with Spiritual Pressure (境·界：靈壓對決)	Mobile	Role-playing game	August 2019
Return Of The Condor Heroes 2(神雕俠侶2)	Mobile	Role-playing game	August 2019
My Hero Academia(我的英雄學院)	Mobile	Card game	October 2019

Cost of Sales

Our cost of sales is primarily comprised of distribution fees incurred for advertisement placements onto the distribution channels, labor costs and amortisation and other related costs associated with the cooperation agreements with certain smartphone manufacturers in relation to their distribution channels.

Cost of sales increased significantly from RMB1,329.2 million in 2018 to RMB2,058.0 million in 2019. This increase was primarily driven by an increase in distribution fees to our distribution channels from RMB1,308.7 million in 2018 to RMB2,026.9 million in 2019, which was in line with the increase in our revenues during 2019.

Gross Profit and Margins

As a result of the foregoing, our gross profit increased from RMB217.1 million in 2018 to RMB338.2 million in 2019. The growth in gross profit was primarily driven by our enhanced business relationships with smartphone manufacturers and other distribution channel suppliers. As our business model gains further recognition, we began to enjoy economies of scale which enables us to increase the number of mobile apps and mobile games we advertise without incurring the same rate of increase in our cost of sales.

The slight increase in gross profit margin from 14.0% in 2018 to 14.1% in 2019 was primarily due to our enhanced efficiency in consummating transactions on our DAPG platform.

Other Income and Gains

Other income and gains increased from RMB11.7 million in 2018 to RMB24.5 million in 2019, primarily due to the additional deduction of value-added tax arising from preferential tax treatment, and the increase in interest income from our bank deposits.

Selling and Distribution Expenses

Selling and distribution expenses primarily consisted of sales employee salaries and related benefit expenses, traveling costs, conference costs and marketing expenses. The increase of such expenses from RMB16.7 million in 2018 to RMB31.6 million in 2019 was mainly attributable to the increase in marketing and advertising expenses and the number of sales and marketing staff.

Research and Development Cost

Research and development cost primarily included fees paid to third party consulting service providers, and employee salaries and related benefit expenses. Our research and development expenses increased significantly from RMB26.3 million in 2018 to RMB45.4 million in 2019, primarily due to the increase in the number of our research and development staff and the development expenses of our systems.

Administrative Expenses

Our administrative expenses decreased by 33.3% from RMB74.6 million in 2018 to RMB49.8 million in 2019, which was mainly attributable to the absence of expenses in connection with the listing of our shares on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing**") during 2019.

Share-Based Payment Expenses

Our share-based payment expenses increased significantly from RMB8.1 million in 2018 to RMB51.3 million in 2019, because we granted additional 13,662,000 restricted share units to certain grantees during 2019.

Operating Profit

As a result of the foregoing, our operating profit increased from RMB101.9 million in 2018 to RMB175.8 million in 2019. Operating margin increased from 6.6% in 2018 to 7.3% in 2019.

Finance Costs

Our finance costs increased significantly from RMB6.2 million in 2018 to RMB13.1 million in 2019, primarily due to higher interest expenses incurred in connection with our new bank borrowings.

Fair Value Losses on Preferred Shares and Warrants

We did not incur fair value losses on preferred shares and warrants in 2019, and recorded an amount of RMB478.9 million in 2018. On the date of the Listing, all our preferred shares were automatically converted into our ordinary shares, and thus in 2019, we did not incur fair value losses on preferred shares and warrants.

Income Tax Expense

Our income tax expense increased from RMB20.8 million in 2018 to RMB56.9 million in 2019. The increase was primarily attributable to the increase in taxable profit of our subsidiaries in China.

Profit for the Year

We recorded a profit of RMB105.7 million in 2019, and a loss of RMB421.5 million in 2018, primarily due to the continued expansion of the Group's mobile app and mobile game distribution business as well as the absence of material loss on termination of convertible bonds and fair value loss on convertible bonds, preferred share and warrants in 2019 as compared with that in 2018.

Non-HKFRS Measures

To supplement our consolidated financial statements, which are presented in accordance with the HKFRSs, we also use adjusted EBITDA and adjusted net profit as additional financial measures, which are unaudited and not required by, or presented in accordance with, HKFRSs. We present these financial measures because they are used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of our business performance. We also believe that these non-HKFRS measures provide additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management compare our financial results across accounting periods and with those of our peer companies.

We define adjusted EBITDA as profit for the year without considering depreciation, amortisation, finance cost, income tax, share-based payment expenses, listing expenses, loss on termination of convertible bonds, and fair value losses on convertible bonds, preferred shares and warrants ("**Adjusted EBITDA**"). We define adjusted net profit as profit for the year without considering share-based payment expenses, listing expenses, loss on termination of convertible bonds, and fair value losses on convertible bonds, preferred shares and warrants ("**Adjusted Net Profit**"). The terms Adjusted EBITDA and Adjusted Net Profit are not defined under the HKFRSs. The use of Adjusted EBITDA and Adjusted Net Profit has material limitations as an analytical tool, as they do not include all items that impact our profit or loss for the relevant years. The effect of items eliminated from Adjusted EBITDA and Adjusted Net Profit is a significant component in understanding and assessing our operating and financial performance.

In light of the foregoing limitations for Adjusted EBITDA and Adjusted Net Profit, when assessing our operating and financial performance, you should not view Adjusted EBITDA and Adjusted Net Profit in isolation or as a substitute for our profit for the year or any other operating performance measure that is calculated in accordance with HKFRSs. In addition, because these non-HKFRS measures may not be calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies.

The following tables reconcile our Adjusted EBITDA and Adjusted Net Profit for the periods presented to the most directly comparable financial measures calculated and presented in accordance with HKFRSs. Adjusted EBITDA and Adjusted Net Profit are not required by, or presented in accordance with, HKFRSs.

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit/(loss) for the year	**105,734**	(421,541)
Add:		
Depreciation	**3,770**	859
Amortisation of intangible assets	**12,933**	11,757
Finance cost	**13,121**	6,216
Income tax expense	**56,921**	20,815
Share-based payment expenses	**51,251**	8,119
Loss on termination of convertible bonds	**–**	14,270
Fair value losses on convertible bonds	**–**	3,202
Fair value losses on preferred shares	**–**	217,123
Fair value losses of warrants	**–**	261,791
Listing expenses	**2,713**	44,014
Adjusted EBITDA (unaudited)	**246,443**	166,625

	2019	2018
	RMB'000	*RMB'000*
Profit/(loss) for the year	**105,734**	(421,541)
Add:		
Share-based payment expenses	**51,251**	8,119
Loss on termination of convertible bonds	**–**	14,270
Fair value losses on convertible bonds	**–**	3,202
Fair value losses on preferred shares	**–**	217,123
Fair value losses of warrants	**–**	261,791
Listing expenses	**2,713**	44,014
Adjusted Net Profit (unaudited)	**159,698**	126,978

Selected Financial Information from Our Consolidated Statement of Financial Position

	As at 31 December		
	2019	2018	Change
	RMB'000	*RMB'000*	
Cash and bank balances	**380,885**	337,753	12.8%
Bank borrowings	**235,958**	146,000	61.6%
Current assets	**1,369,365**	1,057,440	29.5%
Current liabilities	**547,096**	430,967	26.9%
Net current assets	**822,269**	626,473	31.3%
Total equity	**1,035,475**	875,494	18.3%

Cash and Bank Balances

As at 31 December 2019, we had cash and bank balances of RMB380.9 million, as compared with RMB303.4 million as at 31 December 2018. The increase in cash and bank balances was mainly due to our stricter cash control and management. Our cash and bank balances were denominated in RMB, Hong Kong dollars and US dollars.

Bank Borrowings

Our bank borrowings as at 31 December 2018 amounted to RMB146.0 million, among which, (1) the bank borrowings of RMB30.0 million are secured by pledged deposits of US$5.0 million provided by one of our subsidiaries, (2) the bank borrowings of RMB60.0 million are guaranteed by one of our subsidiaries, and (3) the bank borrowings of RMB40.0 million are guaranteed by two independent third parties.

As at 31 December 2019, our bank borrowings increased to RMB236.0 million, among which, (1) the bank borrowings of RMB106.0 million are secured by pledged deposits of US$17.0 million provided by one of our subsidiaries, (2) the bank borrowings of RMB45.0 million are guaranteed by three of our subsidiaries, (3) the bank borrowings of RMB40.0 million are guaranteed by three independent third parties, (4) the bank borrowings of RMB75.0 million are guaranteed by the Company, and (5) the bank borrowings of RMB70.0 million are guaranteed by the controlling shareholders. All the bank borrowings as at 31 December 2019 were denominated in RMB and will be mature within one year, with fixed interest rates ranging from 3.83% to 5.16% per annum. The increase in bank borrowings was primarily due to the increase in external loans used for our business expansion.

Net Current Assets

Our net current assets were RMB822.3 million as at 31 December 2019, compared to RMB626.5 million as at 31 December 2018. Our current assets were RMB1,369.4 million as at 31 December 2019, compared to RMB1,057.4 million as at 31 December 2018, primarily due to the increase in accounts receivable and prepayments. Our current liabilities were RMB547.1 million as at 31 December 2019, compared to RMB431.0 million as at 31 December 2018, primarily due to the increase in accounts payable, income tax payable and bank borrowings.

Total Equity

As at 31 December 2019, our total equity was RMB1,035.5 million, compared to RMB875.5 million as at 31 December 2018, mainly due to the net profit occurred during 2019.

Key Financial Ratios

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current ratio (times)[1]	**2.5**	2.5
Gearing ratio (%)[2]	**34.8%**	33.3%

	Year ended 31 December	
	2019	*2018*
Adjusted net profit margin[3]	**6.7%**	8.2%

Notes:

(1) Current ratio was calculated based on our total current assets divided by our total current liabilities at the end of each financial period.

(2) Gearing ratio was calculated based on our total liabilities divided by our total assets at the end of each financial period.

(3) Adjusted net profit margin was calculated based on our adjusted net profit for the relevant period divided by our total revenues for the same period.

Current Ratio

Our current ratio maintained at 2.5 as at 31 December 2018 and 2019.

Gearing Ratio

Our gearing ratio increased from 33.3% as at 31 December 2018 to 34.8% as at 31 December 2019, mainly due to the increase in our bank borrowings as a result of our continued expansion of business operation.

Adjusted Net Profit Margin

Our adjusted net profit margin decreased from 8.2% in 2018 to 6.7% in 2019, primarily due to the increase in selling and distribution expenses and research and development costs as a result of our increased investments in our service offerings and technologies.

Capital Expenditure and Investments

Our capital expenditures mainly consist of additions to property, plant and equipment and intangible assets, excluding assets from the acquisition of a subsidiary. Our capital expenditures amounted to RMB459,000 and RMB316,000 in 2019 and 2018, respectively.

Funding and Treasury Policies

We expect to fund our working capital and other capital requirements from a combination of various sources, including but not limited to internal resources and external financing at reasonable market rates. We seek to improve the return of the equity and assets while adhering to our prudent funding and treasury policies.

Foreign Exchange Risk

Our Group's subsidiaries primarily operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollars and the Hong Kong dollars. Therefore, foreign exchange risk primarily arose from recognised assets and liabilities in our Group's PRC subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to, overseas business partners. We did not hedge against any fluctuation in foreign currency during the years ended 31 December 2019 and 2018.

Material Acquisitions and Disposals

The Group did not have any material acquisitions and disposals of subsidiaries, associated companies and joint ventures in 2019.

Significant Investments

The Group had no significant investments for the year ended 31 December 2019.

Contingent Liabilities

As at 31 December 2019, we did not have any material contingent liabilities (2018: nil).

Dividend

The Board did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019, except for issuance of certain new Shares to an independent third party. Please refer to "—Subsequent Events" for details.

Subsequent Events

(i) In January 2020, the Company issued and allotted to Xin Point Holdings Limited, a Cayman Island company listed on the main board of the Stock Exchange (stock code: 1571), 25,789,000 new Shares at a subscription price of HK$1.90 per Share (the "**Subscription**"). For further details, please refer to the announcements of the Company dated 7 January 2020 and 20 January 2020.

(ii) On 24 March 2020, the Board resolved and approved to grant 21,013,000 restricted share units to 29 grantees (the "**Grantees**") pursuant to the restricted share unit scheme adopted on 29 August 2019, subject to acceptance by the Grantees. For further details, please refer to the announcement of the Company dated 25 March 2020.

(iii) An outbreak of COVID-19, first reported in December 2019, has spread throughout the world, especially in China, the United States and Europe. On March 11, 2020, the World Health Organization declared the outbreak a global pandemic. Many businesses and social activities in China and other countries and regions have been disrupted, including our customers and smartphone manufacturers. This global outbreak has also caused market panics, which materially and negatively affected the global financial markets, such as the plunge of global stocks on major stock exchanges in March 2020. The Group had resumed its operations since February 2020. As the business of the Group primarily focuses on online activities, the Directors anticipate that the COVID-19 will have no material adverse impact on the business and results of operation of the Group as at the date these financial statements are authorised for issue. However, we cannot assure you that the disruption and potential slowdown of China's and the world's economy in 2020 and beyond may not adversely affect the Group's results of operations and financial conditions in future periods. Additionally, if the outbreak persists or escalates, our business operations and financial condition may also be adversely affected. The Directors will closely monitor the potential impacts, and inform the shareholders if the outbreak of COVID-19 will cause any material adverse impact on the business operations and financial conditions of the Group.

Compliance with the Corporate Governance Code

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its affairs are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all shareholders.

During the year ended 31 December 2019, the Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), except for the following deviation from code provisions A.2.1 of the CG Code.

Code provision A.2.1 of the CG Code stipulates that the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. Mr. GAO Dinan is the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in Mr. GAO has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of Chairman and Chief Executive Officer of the Company at a time when it is appropriate by taking into account the circumstances of our Group as a whole.

Further information of the corporate governance practice of the Company will be set out in the corporate governance report in the annual report of the Company for the year ended 31 December 2019.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code and maintain a high standard of corporate governance practices of the Company.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the year ended 31 December 2019.

The Group's employees, who are likely to be in possession of inside information of the Group, are also subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the employees was noted by the Company.

Audit Committee and Review of Financial Statements

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. As at the date of this announcement, the Audit Committee comprises three members, namely Mr. CHEN Baoguo, Ms. ZHAO Xuemei and Mr. CHEN Tao, a majority of them are independent non-executive Directors. Mr. CHEN Baoguo is the chairman of the Audit Committee.

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2019. The Audit Committee has also reviewed the accounting policies and practices adopted by the Company and discussed matters in relation to, among others, risk management, internal control and financial reporting of the Group with senior management and the Company's auditor. Based on this review and discussions with the management, the Audit Committee was satisfied that the Group's consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2019.

Scope of Work of the Auditor

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditors, Ernst & Young ("**EY**"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by EY 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 EY on the preliminary announcement.

Use of Proceeds

Our shares were listed on the Stock Exchange on 21 December 2018 and the net proceeds raised upon the Listing amounted to approximately HK$194.7 million (equivalent to approximately RMB171.2 million) after deducting professional fees, underwriting commissions and other related listing expenses.

As at 31 December 2019, the Group had:

- used approximately RMB20.5 million for strengthening our research and development capabilities;
- used approximately RMB25.7 million for promoting the development standard of Quick Apps;
- used approximately RMB10.3 million for expanding our service offerings and strengthening our ecosystem;
- used approximately RMB7.7 million for expanding our monetisation channels and strengthening our sales and marketing capabilities; and
- used approximately RMB13.7 million for working capital and general corporate uses.

The remaining balance of the net proceeds was placed with banks. The Group will apply the remaining net proceeds in the manner set out in the Prospectus.

We completed the Subscription in January 2020, and received the net proceeds from the Subscription of approximately HK$48.6 million (equivalent to approximately RMB42.7 million) after deducting the expenses incurred in the Subscription. The Company has not used the net proceeds and intends to apply it for general corporate purposes and working capital use for its business development.

Annual General Meeting ("AGM")

The 2020 AGM will be held on 5 June 2020, Friday. A notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

Closure of Register of Members

In order to determine the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 2 June 2020, Tuesday to 5 June 2020, Friday, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 1 June 2020, Monday.

Sufficiency of Public Float

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

Publication of 2019 Annual Results and Annual Report of the Company

This annual results announcement of the Company is published on the websites of the Stock Exchange (**www.hkexnews.hk**) and the Company (**www.wankaonline.com**). The Annual Report of the Company for the year ended 31 December 2019 will be dispatched to the shareholders of the Company and published on the aforesaid websites in due course.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was halted with effect from 9:00 a.m. on 25 March 2020 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 26 March 2020.

APPRECIATION

The Board would like to express my deepest gratitude to the staff and management team of the Group for their diligence, commitment and dedication, which have contributed to the Company's current achievements. The Board also expresses its gratitude to the shareholders and stakeholders for their unwavering support for the Group. We are full of confidence in the future and will join forces with Android-based ecosystem participants to create a healthy, stable, and prosperous ecosystem.

By order of the Board
Wanka Online Inc.
GAO Dinan
Chairman

For the purpose of this announcement, the exchange rate of HK$1 = RMB0.8793 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rates or any other rates or at all on the date or dates in question or any other date.

Hong Kong, 25 March 2020

As at the date of this announcement, the board of directors of the Company comprises Mr. GAO Dinan, Mr. ZHENG Wei and Ms. ZHOU Yan as executive Directors; Mr. SONG Chunyu and Mr. CHEN Tao as non-executive Directors; and Mr. CHEN Baoguo, Mr. LIANG Zhanping and Ms. ZHAO Xuemei as independent non-executive Directors.